

**Pension Study Commission
April 22, 2013
Minutes of the Meeting**

A Study Commission meeting was held in Room 313 of the State House, 82 Smith Street, Providence, Rhode Island on Monday, April 22, 2013.

Rosemary Booth Gallogly, Director of Revenue and Chairperson of the Pension Study Commission called the meeting to order at 9:10 AM.

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

Members absent: Bruce Keiser, J. Michael Lenihan, Richard Licht, John Simmons

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 April 15, 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 April 15, 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 Paul Doughty, President of the Providence Firefighters' Union Local 799. The motion passed all in favor.

Agenda Item #2 – Letter to Coventry Town Council and School Committee – for vote

Next on the agenda, Chairperson Booth Gallogly referred to Attachment B found in the addendum which is a draft letter to the town council and school committee regarding the Coventry School Employees (non-teaching personnel) pension plan. The Chair indicated that the letter had been modified to include Mr. Pires's suggestion of the Article 11 amendment, and that the letter would be sent by the Commission members under her signature. Mayor Polisena made a motion to accept the letter as written, and the motion was seconded by Mr. Doughty. The motion passed all in favor. The Chair reminded the Commission members that a meeting would be arranged for both the Coventry Town Council and School Committee to come before the Commission.

Agenda Item #3a – Testimony from the City of Cranston on its Fire & Police Pension Plan

Represented by: Mayor Fung; Robert Strom, Finance Director; Phil Bonanno, Actuary from Buck Consultants

Mayor Fung informed the Commission that the City of Cranston's fire and police pension plan is a closed plan that has approximately 48 active members and 435 retirees. The Mayor indicated that the assumptions from the experience study that had been submitted to the State in December 2012 have been recently incorporated which increased the annual required contribution (ARC) significantly from

what was originally put forward in the funding improvement plan (FIP). The FIP estimated the ARC to be approximately \$26.5 million, however had increased to \$28.5 million. The Mayor said that the city has historically had an issue with funding 100% of the ARC and explained that they had been impacted by the municipal cuts which contributed to the decrease in the ARC. The city is currently funding approximately 85% of the ARC and the Mayor explained is based on the original valuation prior to the submission of the FIP. He stated that the city had reached an agreement with the active members and the retirees. The Mayor said that he could provide the highlights; however he could not address the proposed agreement due to the city's legal process. He explained that the first step is the approval by the City Council of the original FIP, then the potential litigation, which would then put forward the proposed resolution. The proposed resolution would freeze the COLA every other year over a ten year period, excluding widows. In the 11th and 12th year there would be a COLA reduction where the retiree would receive 1 ½% compounded COLA and after the 12th year the COLA would then be locked to no greater than 3% compounded. The council's finance committee had approved the original FIP, and it will come before the city council that evening.

Mayor Fung indicated that option 1 was chosen for their FIP, which has COLA provisions and a re-amortization. He explained that to fully fund the \$28.5 million on a go forward basis, the city would have had to raise approximately \$6.5 million in taxes. The Mayor felt that this plan was the best balance for the taxpayers, active members and the retirees. He stated that the questionnaire raised the issue whether the city's FIP is on a decreasing amortization schedule which is not the norm for many of the plans that the Commission has seen before. However, he noted that Cranston's plan has consistently been on a decreasing schedule, and the proposed decrease from the COLA provisions would help the operating budget. In addition, the closed plan is 20% of the City's operating budget, not including the municipal employees' retirement system (MERS) contributions. The Mayor explained that the legacy amount is approaching 25% of the operating budget.

Mr. Bonanno referred to the declining basis and the annual contribution which is comprised of two pieces: 1) normal cost, and 2) the amortization payment for the unfunded liability. He explained that the unfunded amount is paid as a level dollar amount every year. The level dollar payment is added to a decreasing normal cost which equals a decreasing total amount every year. Mr. Bonanno explained that it is fine according to the whole methodology. Furthermore, the City's plan is projecting to pay 100% of the ARC, although the city's ARC may be decreasing, the contribution towards the ARC would remain at 100%.

Chairperson Booth Gallogly referred to option 1, and asked why it appears that the benefit payments exceed the contributions and the funded ratio continues to increase. Mr. Bonanno explained that this is partly due to the assumed investment earnings on the assets. He indicated that when taking into account the earnings on the asset values plus the contributions, the sum of those two exceed the benefit payment which is why it would increase.

Chairperson Booth Gallogly inquired if the fire and police plan were combined with the MERS employees, would the contribution of payroll be considered normal or would the plan always carry an additional burden on what would be considered normal cost. Mr. Bonanno believes that that it is considered normal for a closed plan because the overall contribution is fairly level at approximately \$22 million. However, he explained that when the contribution is taken and divided by a smaller and smaller payroll, it is given a larger percentage, where in a closed plan the percentage is a meaningless number.

Antonio Pires, Director of Administration for the City of Pawtucket asked to explain the factors that had contributed to the city's funded ratio. Mayor Fung replied that it is a combination of things over time including generous benefits in the past; however one of the biggest problems was the chronic nonfunding, underfunding, and even where funds had been taken out of the assets.

Mayor Polisena asked how much the city had lost in general revenue, not including automobile taxes. Mayor Fung said that the mid year general revenue cut was approximately \$4.5 million, and the permanent elimination was over \$8 million.

Dan Sherman from Sherman Actuarial Services, LLC referred to the resolution and new funding schedule, and asked if the schedule will follow the guidelines of reaching 60% funded within approximately 20 years. Mayor Fung stated no, it is approximately 24 years; however the path is to fully fund the plan in 30 years and it would be a level amortization over approximately 30 years.

Chairperson Booth Gallogly asked to explain the award of pensions and the governance on the investment. The Mayor said that the award of service and disability pensions is from the City Council upon the administration's recommendation. The actuarial assumptions on the investments is governed by the City's Investment Commissioners, which is comprised of the mayor (chairperson of the committee), finance director, city treasurer, and three additional members (not officers or employees of the city) who are appointed by the mayor and must have expertise in investments and finance. He stated that the City's Investment Commissioners oversee the plan assets and has the fiduciary responsibility over the assets which are held in a trust. The city's fiscal advisors are Janney Montgomery Scott who meets quarterly. All members of the Investment Commission have attended fiduciary training.

The Chair thanked Mayor Fung and the representatives from the City of Cranston and commended them, the union representatives and the retirees for their hard work.

Agenda Item #3b – Testimony from the City of East Providence on its Fire and Police Officers Pension Plan

Represented by: Malcolm Moore, Consolidated Finance Director for the City and School Department of East Providence; Mr. Fallon, Actuary from Fallon Associates and joined later by Peter Graczykowski, City Manager

Chairperson Booth Gallogly indicated that the City of East Providence's fire and police pension plan funded ratio was 34%, but based on the Google settlement has dramatically improved.

Mr. Moore stated that the City of East Providence's FIP presented three options: 1) Google settlement and how that would affect the city's funding ratio, 2) 100% funding of the ARC, 3) collective bargaining agreements (CBAs) provisions. He said the original FIP had a combination of options 2 and 3 and at that time they did not want include the Google funds. When Google funds came to fruition through a lot of hard work from everybody it greatly improved the city's funding status allowing it to emerge from critical status. However, Mr. Moore indicated that the city would like to move forward with some modifications. He noted that the Budget Commission had made some difficult decisions to get the city back in order and he explained that some of those changes are: funding 100% of the ARC, OPEB and the five-year plan. He referenced option 2, and indicated that there is a proposal in the budget planning report that was approved indicating that the ARC would be

fully funded. That was the ARC that was currently in place before the city received the Google settlement. Mr. Moore stated that the OPEB and the ARC liabilities had greatly been reduced. The city is currently in negotiations with the police and fire members, all the other city unions had settled their contracts. Mr. Moore said that some retirement provisions have been included as a possibility which would reduce the ARC. However, he explained that the most significant amount is from the Google settlement which would increase the funded ratio from 1/3 to 2/3.

Chairperson Booth Gallogly referred to exhibit A, option 1, which now would be considered the baseline with the Google funds received. She indicated that there is a break between 2011 and 2012, and the 33.5% funded ratio improved after the receipt of the Google funds, which was \$49 million, to the amount funded to 61.3% shown. The Chair noted that given the history on the funding of the ARC, she believes that the more important progress is that the Budget Commission has included full funding of the ARC. The Chair indicated that in 2011, the city contributed \$1.4 million when it should have been \$7.4 million, which was only 19% of the required contribution.

The Chair asked Mr. Fallon to explain option 3, which includes the Google funds and other changes. Mr. Fallon indicated that the city presented in exhibit 9, option 3, which includes the Google settlement that is approximately \$49 million and it includes some suggestions on the results of negotiations with the police and fire unions. He noted a significant one is the limit on pay increases. The net result of the suggestions for negotiations was a reduction in the ARC of approximately 7 or 8% of what was originally projected and with the \$49 million waiver transfer of Google, the police and fire plan is currently just over 60% funded, and in 2024 it would be 100% funded. Mr. Fallon said the city is committed to fully fund the ARC in the amount that would have been calculated without the \$49 million Google settlement. He indicated that presumably the ARC payments would be applied to the fire pension side of the plan. The Chair informed the Commission that in the waiver provisions by the Department of Justice, the Google funds can only be used to support the police activities; therefore the waiver that was granted allowed the police side of the pension plan to receive the funds. The Chair inquired if a calculation had been done on option 3 to indicate what the ARC would be if the city assumed the \$49 million was in the fund. Mr. Fallon replied no, that calculation had not been done.

Mr. Fallon asked about the restrictions on the Google funds, and if the pension funds existing assets could be redistributed between police and fire. Chairperson Booth Gallogly responded that the Department of Justice based its waiver amount on the police unfunded liability in the valuation and that it is clear that no transfers of old or new (Google) funds can be made.

Chairperson Booth Gallogly inquired about the governance on the investments and the award of pensions. Mr. Moore responded that the pension is governed by a board that meets quarterly for the regular and disability pensions. He is the secretary/administrator of the board, and the members are: the city manager, council president (known as the Mayor or his designee), an active policeman and fireman, and a retiree. Mr. Moore informed the Commission that the city has an actuary on board and Wainwright Associates are their investment consultants. It was not clear if fiduciary training had been attended.

The Chair asked if they had considered a transition into MERS, and if not what would they consider the hurdles to be. Mr. Moore said it was one of the preliminary options that had been discussed, however there would be the issue of the funding and how the funding would be derived. The other hurdle would be union negotiations to transfer the members over to the MERS. Mr. Fallon asked the Commission if the State of Rhode Island had a publication that would suggest the steps for a municipal plan to transition over to the MERS system. The Chair said that currently the State is looking at

allowing plans to transition in with both active members and retirees. She explained that the Commission is reviewing options to make it easier for the cities or towns to transition into MERS. She indicated that the MERS plan requires funding 100% of the ARC that has been a hurdle for the communities. The Chair suggested that the Treasurer's Office could explain the process. Melissa Malone, representing Gina Raimondo from the General Treasurer's Office indicated that the process is outlined in the Rhode Island General Laws and she briefly described the steps for transition into MERS and she welcomed further discussion following the meeting.

Mr. Sherman referred to the projections on exhibit 9, and mentioned that the amortization period is relatively short and increases 3.6% per year, however the revenue projections are increasing half as much at 1.7% per year. Mr. Sherman's concern is how the ARC would be sustained, and he asked if there was consideration in lengthening the schedule. Mr. Moore replied that it had been considered, however they would prefer to be 100% funded sooner, and as long as the assumptions come to fruition the city should be able to fund the plan for the next 5-6 years which would get them almost there. Mr. Sherman asked if the transfer of the assets would be invested in the same asset allocation that had been used. Mr. Moore said similar, but not the same and indicated that the city may want to expand the base to be more diversified by bringing on one or two more fund managers. Mr. Sherman asked if the 7 ½% rate of return was still appropriate on the asset allocation. Mr. Fallon replied yes.

Mr. Doughty referred to the plan's schedule of funding from 2008-2011, which the plan had contributed 32.38%, 25.05%, 20.35% and 19.53% respectively of the ARC. He asked when was the last time that the city had contributed 100% of the ARC. The Chair said to the best of her knowledge that it had been a long time. Mr. Fallon added that his recollection is that it was the mid 1990s.

Mr. Graczykowski said that he is very pleased that the plan is out of critical status, and his foremost concern is that it continues to be 100% funded, and is committed to doing so.

Mayor Polisena inquired as to how much was cut in state aid. Mr. Graczykowski replied that it was approximately \$10 million. The Mayor asked if he thought that the budget commission would have been in place in the City of East Providence if there were no cuts in state aid. Mr. Graczykowski said that there were a host of issues, but the most significant factor was the cut to state aid; however it was not the sole factor. The Chair thanked the representatives from the City of East Providence.

Agenda Item #3c – Testimony from the Town of North Providence on its Police Pension Plan

Represented by: Mayor Lombardi, Richard Fossa, Chief of Staff; Thomas Massaro, Finance Director

Mayor Lombardi thanked the Commission for the opportunity to explain the great Google settlement. He indicated that the federal government allowed the Town of North Providence to utilize \$20 million of the \$60 million Google settlement. He pointed out that the police pension plan is the only town plan that is not included in the MERS system. The Mayor explained that prior to the Google settlement, the town had doubled the ARC payments to be fully funded in 12 ½ years, and added an additional approximately \$850,000 to the ARC. Mayor Lombardi stated that with the settlement, the police pension plan is funded at approximately 95% and the town is committed to funding the ARC.

Mr. Massaro confirmed that the plan is now 95% funded with the application of the federal asset forfeiture funds. He said the funds were received into the town's trust fund in March 2013, and it reduced the town's unfunded liability to approximately \$1.8 million that will be amortized over ten

years. Furthermore, it significantly reduced the town's ARC from approximately \$1.7 million to \$850,000 and that the actuarial valuation indicates that the payments in future years would be in the range of \$750,000 to \$860,000. Mr. Massaro pointed out that the town has been using an investment rate of return of 7 ¼% for at least ten years. In addition, the town is currently fully funding the ARC, last year the town funded 94% of the ARC.

Mayor Polisena asked how much was cut in state aid. The Mayor said it was close to \$5 million.

State Auditor General Dennis Hoyle asked if there was consideration for transition into MERS and if it would have some advantage for the town. Mayor Lombardi responded that the town is currently negotiating with the police and have encouraged them to join MERS. He believes there would be significant savings to the town. Richard Fossa, Chief of Staff added that there are many advantages for the town to transition into MERS, but prior negotiations with the police department have been difficult, and some of the union members believe there are some disadvantages. The Chair explained that some of the advantages of joining MERS are the centralization of the benefit structure, as well as the investment process and the governance.

The Chair asked the representatives to explain the governance of the award of pensions and the investments. Mr. Massaro stated that the town's investment advisor is Wells Fargo which meets quarterly. The funds are the responsibility of the treasurer of the town, who is also the finance director. The Chair thanked and congratulated the representatives from the Town of North Providence.

Agenda Item #3d – Testimony from the City of Pawtucket on its Police and Fire Pension Plan

Represented by: Mayor Grebien; Antonio Pires, Director of Administration; Joanna L'Heureux, Finance Director; Ronald Wunschel, former Finance Director and currently in a consulting capacity

Mayor Grebien informed the Commission that when he became Mayor 2 ½ years ago there was a \$12 million structural problem, the unfunded liability on the police and fire pension was approximately \$140 million and the OPEB was \$360 million. He pointed out that the City of Pawtucket had created an ad hoc committee chaired by Ernie Almonte, the former State Auditor General. The Mayor said that after reviewing all the factors and impacts, the city met with the PEW Foundation and they felt confident in the direction that they were heading. He believes that the FIP balances the responsibilities of the taxpayers, active members and the retirees. In addition, he noted that the union leadership had hired Mr. Sherman as their actuary with the consent of the city and collectively they looked at all options. Mayor Grebien explained that currently the city does not have a pension committee who oversees the increases which are done based on their actuarial studies and overseen by the finance department and the Council. He stated that the charter in the ordinances allows the Mayor to make the decision as to the disability pensions. Furthermore, he indicated that the city is in the process of working with the city council in attempting to form a charter review commission to establish a pension oversight committee. The Mayor informed the Commission that for the past three years the city has made 100% of the ARC, which were based on the actuarial valuations from the previous years. He explained that is one of the reasons the city is in a better position with their ARC payments which puts them in a better position to make the corrective action over the next twelve years. Mayor Grebien feels confident that the FIP that has been recommended to the city council will be approved. He concluded by expressing that he believes that there needs to be accountability from all sides involved. The Chair agreed that the pension plans will require continued oversight and accountability from all the stakeholders involved.

Mr. Pires informed the Commission that there have been ongoing negotiations with the Executive Committees of the FOP and the IIAF. He indicated that the FIP is proposing a three year freeze on COLAs for both active and retired employees and beneficiaries (active members would defer COLAs immediately upon retirement). The COLA agreement includes that active participants would not collect a COLA until either ten years after retirement or age 55, whichever is earlier. The city expanded the opportunities to increase the pension benefit from 60% to 70%, and that is in conjunction with the agreement for the extended COLA freeze, and includes an employee contribution from 7 ½% to 9%. Mr. Pires explained that the city felt that by increasing the percentage from 60% to 70% that there would be an attempt to keep active employees in the system for a longer period of time, which the city views as a great benefit to the accrued pension and OPEB liability. Furthermore, a pension would be determined on a three-year average instead of the last full year. Mr. Pires pointed out that the plan includes a change in the termination benefits for an employee who leaves before the twenty-year period. The employee would be able to secure benefits if the funds were left in the system, and the city believes that makes the plan healthier and allows the investment income to grow on those percentages. Mr. Pires noted that over a twenty years there would be an increase in the ARC payments of approximately 2 ½% to 3% under the proposed FIP. Furthermore, he expressed that the city is committed to continue to make the changes in its operating budget on a year-to-year basis in an attempt to mitigate any of the expense to the taxpayers. Mr. Pires said he believes that city has achieved a pathway to resolving the pension issue, and anticipates on getting to the funded ratio of 60% in twelve years, and indicated that the rate of return has decreased from 7.875% to 7 ½%. Mr. Pires noted one change is pending which is an amendment that was proposed by Council Finance Chair John Barry. This change would not impose a three-year COLA freeze on any individuals making less than a \$30,000 retirement benefit and is under active discussion. Mr. Pires explained that the city took a little longer than they should have due to a number of factors including negotiations. He thanked the Commission members for the city's indulgence and delay in presenting its FIP. He pointed out that the city's police and fire plan is 34% funded, and the funding ratio is due to the chronic underfunding beginning in the 1980s, early retirement opt-out incentive and the collapse of the equity market.

Chairperson Booth Gallogly asked for an explanation of the termination benefit. She inquired if it was considered part of the pension plan where one would be eligible for retiree health. Mr. Pires responded that it is not. He said that it is an inducement for those members who otherwise would withdraw those funds. In order to keep those funds in the system, the employee could secure a benefit after twenty years to what they actually earned and they would also be subject to the COLA freezes. He pointed out that it did not mean that the city was going to increase their OPEB responsibilities. Mr. Sherman explained that a cost analysis had been done that indicated a net savings to the system. Mr. Pires stated that in 3 ½ years, the city's net cumulative loss of the state aid including the automobile taxes was close to \$40 million.

The Chair asked for an explanation of the governance of the award of pensions including the investments. Mr. Wunschel explained that the pension awards are governed by the mayor, director of administration, finance director and the personnel director, as well as the actual collective bargaining agreement. Mr. Wunschel mentioned that the city has a system that when the disability pensioner reaches his retirement age, then the pensioner is converted to a regular pension that is based on 20 years at 50%. He indicated that there are nine members on the investment side and they are: finance director ex-officio, an appointment by the council (usually the finance chair), two members of the active police and fire, two retired police and fire representatives, two appointed members by the mayor of the general public, and one appointment by the council for the general public. They meet on a quarterly basis or as needed. Morgan, Stanley, Smith Barney is the city's investment firm. Mr.

Wunschel indicated that some of the members did attend the General Treasurer's seminar on fiduciary training and he would encourage attendance at any future training.

State Auditor General Dennis Hoyle asked if there was consideration for a transition into MERS, and if it would have some advantages for the city. Mr. Wunschel indicated that the city met with the PEW Foundation, and there were many plans that were presented to the city that were all geared towards joining MERS. He pointed out that there were many methodologies and assumptions different to what is in MERS, and suggested is that it might be time for each city or town to come together with the unions and come up with a common type of benefit structure so that they could go into MERS.

The Chair inquired if the actuary was previously using a rolling amortization where under the proposal is a fixed period. She pointed out that under the MERS scenario on option 4, that the unfunded liability was the highest of all the options and she assumes that is due to the different assumptions and actuarial methodologies. Mr. Wunschel replied yes.

The Chair thanked the representatives from the City of Pawtucket and asked them to please forward their resolution when passed by the City Council to Susanne Greschener, Chief of the Division of Municipal Finance.

Agenda Item #3e – Testimony from the City of Providence on its City Employees Pension Plan

Represented by: Mayor Taveras; Michael D'Amico, Director of Administration; Jeffrey Padwa, Esq., City Solicitor, William Dolan, Esq.

Mayor Taveras provided a background on the history of the City of Providence's city employee's pension plan. In March 2011, the Mayor released a municipal finance review panel report that indicated that the city had \$110 million structural deficit and a large portion of the deficit was the cost to the city's pensions. In 1989, the Retirement Board of the City of Providence approved 6% guarantee COLAs for retirees and reduced the minimum years which increased the ARC from \$12 million to \$32 million. In 1991, the pension plan was underfunded by \$185 million which was 57% funded. In 2012, the pension plan was underfunded by \$900 million and was 32% funded.

Mayor Taveras pointed out that the city's ARC prior to the negotiation settlement was \$58.9 million. Furthermore, he said that once the experience study was done and those assumptions applied then it would have been \$72 million. He pointed out that the COLAs presented a huge part of that liability (\$18.5 million of the \$58.9 million). There was also a \$38 million annual cost of retiree medical plan prior to the negotiated settlement. Furthermore, there was an unfunded liability of \$900 million and an OPEB liability of \$1.2 billion. Over the next twenty years, the city was on schedule to increase the ARC by \$100 million without change. The Mayor explained that there was a 2007 Case called ARENA in which the city had suspended or eliminated COLAs that had been overruled by the Supreme Court. He said it was a challenge for the city since it created a precedent and the city had been looking at enabling legislation to distinguish any type of suspension of COLAs from the ARENA Case that could strengthen their legal case moving forward. The Mayor indicated that with the help of the General Assembly, the city attempted to move their retirees over the age of 65 into Medicare and that precipitated a legal action that has come to a culmination recently. The Retiree Association filed suit in October 2011, and in January 2012 the court enjoined the city from making that move, and it precipitated a cash crisis for the city where they were looking at running out of cash by the end of June 2012. The Mayor explained that the retirees do not have a collective body that represents them; therefore the city had to find a mechanism to bind their retirees. He mentioned that the city met with

the retirees in March 2012 and started negotiating with them. Mayor Taveras said that they were able to agree on changes to the pension system that the city believes makes it stronger moving forward, and the changes are: 1) elimination of all the 5% and 6% compounded COLAs, 2) all the COLAs are suspended for ten years (except for the families who had lost someone in the line of duty), 3) capped the pensions; and created a system where retirees will no longer be making more than the current employee who is on the job, or 1 ½ times the median income in the State of Rhode Island, whichever is less, 4) changed the calculation of pensions to the last four years instead of the last three years, 5) required employees to contribute to the pension system longer, and 6) settled the Medicare litigation as well and estimate the savings of approximately \$18 million a year starting this year, approximately \$178 million off of the unfunded pension liability. The Mayor indicated that it also reduced their OPEB by moving the retirees to Medicare. He said that they had agreed to a one time stipend in FY2017 of \$1,500 for retirees who make less than \$100,000 per year, and it is not to be included in the base for future calculations.

The Mayor said the city did a class action lawsuit and used some legal maneuvering to try to bind as many retirees as possible. The city gave the retirees an opportunity to opt-out of the settlement, and 93% chose the settlement and approximately 80 opted-out where the city would have to deal with those lawsuits individually. The 93% of the retirees that had chosen the settlement will be bound by the judgment that was just entered on April 12, 2013.

Mayor Taveras informed the Commission that the city had not reamortized and plans to emerge from critical status in 2033 and is on a 27 year schedule. He pointed out that one of the handouts provided to the Commission members indicates that the city had funded 80% of the ARC last year; however it was approximately 90%. The city had a recalculation of the ARC based on the settlement and made a payment based on that through an agreement with their union. In addition, the city agreed in the litigation that they would fund at least 95% of the ARC until the pension plan is 80% funded. The Retirement Board of the Employees' Retirement System of the City of Providence governs the award of service and disability pensions, and that is by ordinance, and determines the actuarial assumptions. The city has decreased the rate of return from 8.50% to 8.25%. Mayor Taveras indicated that the retirement board is comprised of the city treasurer, chairperson of the city council committee on budgetary matters or his designee, finance director ex-officio, two members who shall not be officers or employees of the city who should be elected by the city council, two members who should not be officers or employees of the city who shall be appointed by the mayor, and representatives of the present and retired employees of the city. These members have attended fiduciary training and meet monthly. The body that governs the investments of pension assets is the Board of Investment Commissioners under the charter consisting of the mayor, chairperson of the committee in charge of the budgetary matters of the city council, finance director, city treasurer, all ex-officio, and three members appointed by the mayor who shall not be officers or employees of the city. The board is scheduled to meet monthly; although meetings can be quarterly and members have attended fiduciary training. The Board is staffed by the City Solicitor who is the legal advisor, City Treasurer is the custodian of the funds, and the City Clerk is the Clerk of the Board.

The Mayor discussed transition into MERS and said that the biggest issue that the pension plan faces is related to the benefits associated with the retirees. Furthermore, the Mayor has been informed by the city's consultant financial, Wainwright that the city has typically done better on their investment rate of return than the State. He indicated that the city is in support of the provisions of Article 11 of the Governor's proposed budget.

The Mayor is very grateful not only to his unions, but also to the retirees who have been willing to sacrifice to help the city. The Chair thanked the Mayor and said that she has appreciated his leadership on this issue, and she said that in many cases she has been asked how Providence has done it. The Chair said that the City of Providence is being viewed as a model.

Mayor Polisena inquired as to how much money the city had been cut in general revenue sharing. Mr. D'Amico believes it was approximately \$30 million for a total amount of approximately \$58 million.

The Chair asked if the Commission had the resolution from the council or the council minutes adopting the plan. The Mayor indicated that he has a copy of a resolution that can be presented to the Commission that endorses and ratifies the consent judgments from the Court.

Mr. Pires referred to the retirees who had opted-out of the settlement and asked for clarification. Mayor Taveras explained that everyone that stayed in the class is bound by the consent judgment because they are part of the class. Those who had opted-out have the right to pursue the action individually; therefore they do not have the ability to create another class.

It was noted by Mr. Pires that the city's ARC doubles in twenty years. The Chair said that for the ARC as a percentage of the city's budget to stay comparable would mean that the total revenue would need to double for it to stay at approximately 15% of the budget. The Mayor said that it will increase over time. Mr. Sherman added that he did a revenue forecast that increases approximately 1% per year for the next five years, and if the 1% continues to the end of the schedule the retirement cost represents approximately 27% of the city's budget versus the 15% today; therefore additional revenues or cuts would have to be found.

Mr. Doughty thanked Mayor Taveras for his leadership, and he said throughout the negotiations that the members found him to be most importantly fair and honest. He believes that a great attribute under the Mayor's leadership is his ability to surround himself with smart capable people. He said that Mr. D'Amico and Attorney Padwa were a pivotal part in creating the FIP, and he thanked them all. Mayor Taveras expressed to Mr. Doughty that he had appreciated the opportunity of working with him, and thanked him. Mayor Taveras concluded by noting that it was important to resolve the pension issue in a consensual way and avoid the ramifications of a bankruptcy. The Chair thanked all the representatives from the City of Providence.

Agenda Item #4 – Next Steps

Chairperson Booth Gallogly indicated that since all the communities had presented their testimonies, the plan is to provide a higher level summary of each FIP and highlight those items that the Commission feels are the most critical issues before the Commission votes on the reasonableness of the plans. The next meeting is scheduled for May 13, 2013, at which time a format would be presented to the Commission members. The Chair welcomed any suggestions from the Commission, and indicated that those suggestions could be forwarded to Ms. Greschner. The Chair mentioned that Moody's is changing how they are viewing public pensions, and that they are doing apples to apples comparisons. She hopes to be able to brief the Commission members further on this subject.

Agenda Item #5 – Public comments

There were no public comments

Agenda Item #6 - Adjourn

Mayor Polisen made a motion to adjourn which was seconded by Mr. Doughty. The meeting adjourned at 11:17 AM.

Rosemary Booth Gallogh
Chairperson

6/10/13
Date

PSC/sm



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Department of Revenue
Office of the Director
One Capitol Hill
Providence, RI 02908-5855

TEL: (401) 574-8999
FAX: (401) 574-8997
TDD: (401) 222-1227

April 22, 2013

Members of the Coventry Town Council
Members of the Coventry School Committee

Dear Ladies and Gentlemen of the Town Council and School Committee:

On April 1, 2013, the Pension Study Commission met with representatives from the Town of Coventry, Coventry School Department and the Trustees of the Coventry School Employee's (non-teaching) Pension Plan. On behalf of the Commission, I request that you attend a follow up meeting to discuss the plan's sponsorship.

As members of the Commission, we have been committed to working together in good faith to encourage sensible and fiscally sound recommendations for locally-administered pension plans in accordance with R.I. Gen. Law §45-65-8. Specifically, our purpose is to review existing legislation and pension plan administrative practices and to make recommendations for the improved security and funding of locally administered pension plans and other post-retirement benefit obligations of cities and towns. This task has not always been easy but we are committed to doing the right thing. It is our hope that you will work in this spirit as well.

The Commission is particularly concerned over the lack of responsibility taken by both governing bodies with respect to the School Employees Pension Plan. While we recognize that both governing bodies have denied legal responsibility for the plan, there is at the heart of the matter a lack of concern for the employees who participate in it.

Approving resolutions stating that the employer's responsibility is limited to making the contractually required contributions does not address the problem. For purposes of the Governor's proposed 2014 budget, it is our understanding that the Town of Coventry would not qualify for Article 11 incentive aid funds of \$332,252. Proposed Article 11, as amended, states that a Funding Improvement Plan must be approved by the plan sponsor and the local governing body no later than June 1, 2013. While the Trustees voted on the plan, the local governing body has not taken any action to date.

Further, the Commission has not made a recommendation yet with respect to R.I. Gen. Law § 45-65-7. Failure to comply with the requirements of Chapter 45-65 authorizes the general treasurer to withhold moneys due to the municipality from the state for any purpose other than education, including, but not limited to, municipal aid and other aid.

The Commission and the staff of the Department of Revenue continue to encourage an open dialog with all stakeholders and we hope that you will consider developing alternatives to address the lack of retirement security for employees covered by this plan.

Coventry Town Council
Coventry School Committee
April 22, 2013
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Please contact Susanne Greschner at 574-9910 or susanne.greschner@dor.ri.gov to discuss a mutually agreeable date with the Commission.

Best regards,

Rosemary Booth Gallogly
Chairperson of the Pension Study Commission on behalf of the Commission

cc: Ms. Jean Bouchard, Municipal Vice President of AFSCME, Council 94
Mr. Paul Doughty, President of the Providence Firefighters' Union Local 799
Mayor Allan Fung, City of Cranston
Mr. Dennis Hoyle, R.I. State Auditor General
Mr. Bruce Keiser, Town Administrator of the Town of Jamestown
Mr. J. Michael Lenihan, Former State Senator & Former Chair of Senate Finance Comm.
Mr. Richard Licht, Director of the R.I. Department of Administration
Mr. Antonio Pires, Director of Administration of the City of Pawtucket
Mayor Joseph Polisena, Town of Johnston
Ms. Gina Raimondo, R.I. State Treasurer
Mr. Steven St. Pierre, Sergeant of the Bristol Police Department
Mr. John Simmons, Executive Director for the R.I. Public Expenditure Council
Mayor Angel Taveras, City of Providence
Mr. Gary Moore, Chairman of the Coventry School Trustee Board
Mr. Thomas Hoover, Town Manager of the Town of Coventry
Mr. Theodore Przybyla, Finance Director of the Town of Coventry
Dr. Michael Almeida, Superintendent of the Coventry School Department
Ms. Robin Pelletier, Director of Administration and Finance of the Coventry School Dept.
Ms. Susanne Greschner, Chief of the Division of Municipal Finance

Municipalities presenting on April 15, 2013
Synopsis of Pension Plans

Unit	Article 11 Proposed Incentive Aid ³	Year Emerging from Critical Status ⁴	Investment Rate of Return ⁴	Unfunded Actuarial Accrued Liability (UAAL)	Unfunded Liability/Plan Member	Funded Ratio	ARC	Contribution	Percentage of ARC Contributed	Participants			
										Active	Terminated	Retirees/ Beneficiaries	Total Participants
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(M)	(N)
Cranston ¹	\$ 763,531	2028	7.5%	290,277,000	600,988	15.5%	24,154,120	20,369,456	84.33%	48		431	479
East Providence ²	\$ 448,452	2034	7.5%	105,800,574	243,220	34.0%	7,362,115	1,437,580	19.53%	188	0	247	435
North Providence ¹	\$ 304,926	2013	7.25%	1,836,906	13,311	94.9%	1,675,153	1,568,508 ⁵	93.63%	63	5	70	138
Pawtucket ²	\$ 677,275	2026	7.5%	149,031,948	236,559	34.0%	11,238,282	10,169,519	90.49%	280	0	350	630
Providence ²	\$ 1,690,104	2033	8.25%	900,984,913	150,541	31.94%	56,380,436	56,380,000	100.00%	2987	435	2998	6420

Source:

¹ Data in columns (D) - (N) from 2012 actuarial valuation

² Data in columns (D) - (N) from 2011 actuarial valuation

³ Compiled by DMF

⁴ Funding Improvement Plan

⁵ Does not include the \$20.6 million accrued contribution