

**Pension and OPEB Study Commission
June 24, 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, June 24, 2013.

Rosemary Booth Gallogly, Director of Revenue and Chairperson of the Pension and OPEB Study Commission called the meeting to order at 10:08 AM.

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

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

Others present: Susanne Greschner, Chief of the Division of Municipal Finance, Daniel Sherman, Actuary for the Pension and OPEB Study Commission and members of the public

Agenda Item #1 – Approval of Minutes from May 13, 2013 and June 10, 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 May 13, 2013 and June 10, 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.

Commission Member's Comment:

Mayor Polisena noticed that the municipal incentive aid had been cut and in addition that the state would not be making their \$12.9 million pension payment and asked the Chair if that was correct. The Chair said yes that it was correct. The Mayor said that "for the record" that he understands that the State is having a difficult time and he realizes that it is difficult for them to meet all their obligations; however he said the cities and towns are also having a difficult time. The Chair said that the State is paying the pension fund's annual required contribution (ARC). Furthermore, she explained that a payment is required by law when revenues exceed what had been budgeted and she said that there would be an additional payment that would go into the pension fund.

Agenda Item #2 – Funding Improvement Plan Testimony – City of Woonsocket, Attachment C

Represented by: Mayor Leo Fontaine; Thomas Bruce, Finance Director; Dennis Jacobs, Actuary from USI

Chairperson Booth Gallogly welcomed the City of Woonsocket representatives and she explained that initially the city was not in critical status; however they have since fallen below 60% funded and they are now in critical status.

Mayor Fontaine indicated that the City of Woonsocket is under the provisions of the budget commission statute. He said that there has been a lot of assistance from the State Department of Revenue and he thanked Chairperson Booth Gallogly for all of her assistance and efforts.

The Mayor provided the Commission with a brief history of the city indicating that in the early 1980's that the police officers were brought into the Municipal Employees Retirement System (MERS). The city's fire plan was kept open for existing employees and all new employees went into MERS. There is only one active employee left in the old city system. Then in the 1990's a plan for a pension obligation bond was created with the caveat that if the plan became underfunded that the city would have to make it up within a five year period. The Mayor explained that the city tried to mirror the state's system and he explained that initially the plan was doing fine, but the plan's funding had significantly been reduced when the markets began to tumble. The Mayor then hired a new investment consultant and Roger Begin was the chairperson. He said the city has been trying with all their efforts to deal with the pension situation, but unfortunately he said it becomes a process of trying to protect capital assets in addition to trying to have the fund rebuilt. He pointed out that when the city was initially underfunded, approximately \$11 million was proposed to meet the ARC, however, that would have put the city over the tax cap; therefore the payment was dropped down to \$1 million. The Mayor faced a significant deficit upon taken office and quickly worked into the necessity of taking out deficit funding bonds. He pointed out that the city was pledging to continue the \$1 million payments through the five year of the deficit funding bond, but then allocate all of the assets that they were putting towards that payment into the pension fund. The Mayor explained that the city has run into unforeseen deficits in the school department that basically pushed the city into the budget commission process.

Thomas Bruce, Finance Director briefed the Commission on the city's funding improvement plan (FIP). Mr. Bruce indicated that the Woonsocket Budget Commission had selected option 2a as their FIP, and then on June 3rd, the Budget Commission approved and submitted option 2a.i as their FIP, which is an amortization for sixteen years, with the first five years at \$3,465,000 which is dependent upon legislation. However for fiscal year 2013, it was modified to \$1 million. Mr. Bruce indicated that the budget commission would be discussing the cash flow later that day; however he said that the city is looking at making the \$1.0 million payment by Wednesday, June 26, 2013.

Mayor Polisena asked if the \$1 million payment would be an issue for the city to meet. Mayor Fontaine said that cash flow has been the city's greatest struggle; however he did not believe that there would be a problem making the \$1 million payment this year. Mayor Polisena asked what the general revenue amount was that was cut from the city. Mayor Fontaine was not sure; however since 2007 the accumulative loss of all reductions of state, municipal and education aid was \$55 million.

Paul Doughty, President of the Providence Firefighters' Union Local 799, indicated that according to the option 2a.i, the cost of living adjustment (COLAs) will be rescinded indefinitely and he inquired as to when the city is 100% funded in the year 2029 that the COLA will not be restored since the annual required contribution (ARC) goes down to zero. Dennis Jacobs, Actuary from USI said if the COLA was re-implemented at that point, he said the liability would increase and then the assets would be short of the liability; therefore a further contribution would be required. Mr. Doughty asked what the COLA savings would be for the year 2013-2014. Mr. Jacobs said approximately \$250,000.

Dan Sherman, Actuary for the Pension and OPEB Commission referred to the pension obligation bond and inquired as to the current interest rate and asked if the provision of the obligations have any chance for obtaining a lower interest rate. Mayor Fontaine indicated that it is approximately 6% and there is

no callable option. Mr. Sherman asked if the plan was to get back to a mid year deposit. Mr. Bruce replied yes.

State Auditor General Dennis Hoyle inquired as to the challenges the city might face transitioning into MERS. Mayor Fontaine indicated that initially it was that the plans were not similar due to the compounding of the COLA, but that is no longer an issue. The Mayor said that a transition into MERS would be determined by the numbers.

Chairperson Booth Gallogly indicated that the \$3.465 million ARC that is indicated in option 2a.i is the amount that is in the 2014 budget; therefore she said that the 2013 and 2014 ARC that appears in the FIP is consistent with what is currently pending for the budget's submission.

Mr. Bruce indicated that the body that governs the award of service and disability pensions is the executive branch through the human resources director and the administration. In addition, the actuarial assumptions are adopted by the executive function through the finance director with the consultation of the actuaries. There are five members of the pension plan governing board who meet quarterly and they would be interested in any future fiduciary training

Auditor General Hoyle referred to the 2012 audit report and he asked the representatives from the city to elaborate on the reason for the heavy allocation to a money market fund of the pension fund assets. Mayor Fontaine said it was to protect the capital of the funds and that has been under the advice of the advisors.

The Chair thanked the members of the City of Woonsocket, and she said she appreciates all their efforts.

Agenda Item #3 – Funding Improvement Plans and Municipal Incentive Aid – Discussion

Next on the agenda, Chairperson Booth Gallogly briefly explained the funding improvement plans progress report that was presented to the Commission members. She noted that the information had been confirmed with all of the communities and would be made available on the Commission's website; however, it is subject to change for some municipalities due to negotiations with active members and retirees.

The Chair referred to Article 11 which is included in the state budget and she indicated that the funding associated with it has been reduced from \$10 million down to \$5 million and the communities would be eligible to receive the funds if the General Assembly passes the budget. The Chair said she had spoken with Gary Cote, Town Council President of the Town of Coventry regarding the status of the town's pension issues and she was informed that the town has an upcoming meeting scheduled to address their pension issue. The Commission members agreed to defer on any consideration of the municipal aid until it is determined if any progress has been made on the Town of Coventry's pension plans. Further discussion on this matter will continue when the Commission reconvenes in the fall.

Tony Pires, Director of Administration from the City of Pawtucket inquired if the only change in the Sub A version was the FY 2014 appropriation or if there were other changes included. The Chair indicated that there were technical changes that were made from the original bill and the Article 11 appropriation includes the reduction from \$10 million to \$5 million.

Agenda Item #4 – OPEB Survey

The Chair referred to the OPEB Survey and indicated that there had been a revision to the original survey that had been presented to the Commission at the last meeting. Questions 1 and 2 were amended to clarify the requirement for the OPEB valuations for plans with members of 200 or more are required to do the study biennially and those with 200 or less are required to do it every three years. The communities will be asked for the date of their last valuation and the number of the membership in the OPEB plan. The Chair indicated that the survey would be sent out to the communities and they would be given several weeks to complete it and then send it back to the Division of Municipal Finance. The Chair hopes to have some OPEB data available to the Commission members when they reconvene in September.

The Chair indicated that she would like to have the Interlocal Risk Management Trust present before the Commission again and she welcomed any ideas that the Commission members may have during the summer as to any resources the Commission could acquire regarding OPEB. She expressed that the Commission is open and willing to listen to any ideas or suggestions on OPEB. The Chair said that her staff will be pursuing master price agreements (MPAs) for the administration in order to seek out vendors to get better prices for the local communities. Richard Licht, Director of the Department of Administration indicated that assuming the budget article that came out of the House Finance Committee regarding OPEB passes, he said that the state would be making a major change in the way they provide the gap coverage for post 65 retirees that would save the state a substantial amount and that he would be willing to share it with the Commission.

John Simmons, Executive Director for the R.I. Public Expenditure Council inquired if a FIP would be required for the OPEB plans. The Chair said that the Commission members would need to discuss this further as a body and also to understand what the challenges might be.

Mr. Sherman noticed that the survey appeared to be directed to cities and towns and he asked about including the fire districts, housing authorities, and school districts, etc. The Chair said that Mr. Sherman provided an excellent point and this would be done.

Mayor Polisena made a motion to accept and send out the survey. The motion was seconded by Mr. Doughty. The motion passed all in favor.

Agenda Item #5 – Public comments

There were no public comments

Agenda Item #6 – Adjourn

Chairperson Booth Gallogly thanked her staff in the Division of Municipal Finance, Mr. Sherman and the staff of Capitol TV for all of their work. She assured the Commission that her staff in the Department of Revenue will continue to work hard during the summer so that when the Commission reconvenes in September there will be information available to them that will be helpful on the OPEB issue.

The Chair summarized the many accomplishments of the Commission and thanked the Commission members for faithfully attending the commission study meetings and working together on their many accomplishments.

Mr. Licht thanked the Chair and he said that her dedication, commitment and leadership have been extraordinary. In addition, he thanked her staff.

Mayor Polisenena made a motion to adjourn which was seconded by Mr. Doughty. The meeting adjourned at 11:20 AM.

Rosemary Booth Sallozz
Chairperson

9/9/13
Date

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