

Pension and OPEB Study Commission
January 27, 2014
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, January 27, 2014.

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

Commission members present: Rosemary Booth Gallogly, Jean Bouchard, Allan Fung, Dennis Hoyle, Allison Rogers representing Richard Licht, Antonio Pires, Joseph Polisena, Andrew Marcaccio representing Gina Raimondo, John Simmons, Steven St. Pierre

Members absent: Paul Doughty, J. Michael Lenihan, Angel Taveras, and there is a vacancy due to the retirement of the Jamestown Town Administrator.

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 October 21, 2013 and November 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 meetings held on October 21, 2013 and November 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 Mayor Fung from the City of Cranston. The motion passed all in favor.

Agenda Item #2a – OPEB Trust Fund Survey – Overview of Massachusetts municipalities – Attachment B

Next on the agenda, Chairperson Booth Gallogly referred to the Other Post Employment Benefits (OPEB) and its significant liability and she thought it would be helpful to provide the Commission with an OPEB summary from the State of Massachusetts.

Dan Sherman, Actuary for the Pension and OPEB Study Commission referred to the OPEB Trust Fund Survey that was conducted by the Massachusetts Municipal Association (MMA). He explained that the MMA performed a spot survey of 80 plan sponsors (out of approximately 450) of the OPEB plans. The communities had determined how much money they could afford to transfer into a reserve account, and then began the process of educating the public, selectmen and working it through their budgets. Every community will be different depending on their own situation.

Mayor Polisena commented on how the State of Massachusetts has similar significant funding liabilities as Rhode Island. Mr. Sherman pointed out that approximately 50% in Massachusetts are actually contributing to a trust fund. Mayor Fung inquired if the report included the schools. Mr. Sherman indicated that both the teachers and other school employees are included in the report. As in Rhode Island, the teachers pensions are handled by the State, however the OPEB for the teachers are

local. Dennis Hoyle, Rhode Island Auditor General inquired if the asset allocation was the same for the funds that go into the Pension Reserves Investment Trust (PRIT) for OPEB as compared to the pensions. Mr. Sherman explained that in the PRIT there is a core fund that is similar to a mutual fund where everyone is in the same position.

The Chair indicated that it is important to consider the entire “retirement package” and be mindful of the cost of providing that package. She said that if the liability is not funded, it will continue to grow 3-5% per year. In addition, she said that the Commission needs to figure out how to help municipalities with their OPEB issues, and to determine if there is a better structure that could lead them towards a gradual funding of their liability. The Chair mentioned that an interesting topic for discussion at the next meeting would be to learn how Massachusetts municipalities can opt into PRIT, the state administered investment body.

Antonio Pires, Director of Administration for the City of Pawtucket, asked if a community could access funds from a trust fund. Mr. Sherman indicated that funds are not accessible from a trust unless there is no longer an OPEB obligation, and that some may simply be restricted accounts, not trusts. The Chair referred to the funds that are invested by PRIT, and the OPEB obligations that have a different cash flow or liability stream than the pension; and she inquired if Massachusetts was looking at matching up the liabilities with types of investments. Mr. Sherman said they had not since it is in its infancy. He said that most communities are continuing to budget pay go funding as a line item, and any additional monies are put into the trust fund. Mr. Sherman said that PRIT is invested heavily into many equities that have different risk factors, which are relatively low. The Chair referred to the source of funding listed on the report, and she notice that many of the communities in Massachusetts had indicated Part D reimbursements. Mr. Sherman explained that there is a partial reimbursement for the drug coverage from the federal government and it is being put into the trust fund. The Chair indicated that she would like to review the reimbursements further.

Agenda Item #2b – OPEB Trusts – Experience from municipalities in Rhode Island – Town of Charlestown and City of Newport – Attachment C

The Chair introduced Patricia Anderson, Finance Director for the Town of Charlestown and congratulated her on the town’s OPEB funded status of 33.5%.

Ms. Anderson said that the Town of Charlestown is very proud of their commitment to the OPEB funding. Charlestown is a smaller community and the school and library are separate from the town which has only 60 employees. The only employees who receive health insurance benefits at retirement are 20 police officers and 3 department heads that were hired prior to 1996. In 2006, the town had recognized its obligation to pay for part or all of the obligations to those employees. Initially, the town had determined their OPEB obligation and then hired the actuarial firm of Milliman, who had determined that the accrued liability was \$3,391,000 and the annual required contribution (ARC) was \$385,000.

Ms. Anderson noted that the town looked at the Town of Bristol as a model, who had established a trust using Attorney Sandra Mack Matrone of the Law Firm Hinkley, Allen and Synder, LLP. It was then determined that no other trust in Rhode Island had gotten a ruling from the Internal Revenue Service (IRS); therefore Attorney Matrone worked with the IRS to achieve a ruling. Since it is a government entity, and the monies that are invested are used strictly for paying for benefits of those retirees, the ruling was that there would be no tax liabilities. That ruling was favorable for both the town and the retirees. The investment income would then be rolled back into paying for those benefits.

This ruling was strictly for the Town of Bristol, but the implications was that other municipalities that set up their trust in a similar fashion would receive the same type of ruling.

The Town of Charlestown had set up their trust in the same fashion and requested an RFP for a trust management, and Citizens Bank was the lowest bidder. The town has a committee that consists of the administrator, treasurer, a budget commission member and a member of the council that reviews the trust which meets with Citizens Bank semi-annually. To date, the town has contributed \$2,218,000 towards their ARC, and their current balance as of December 31, 2013 is \$3,071,000. During contract negotiations, the police officers have agreed to contribute 20% towards their health insurance and to increase their co-pays. The Chair inquired if premiums are paid out of the trust fund. Ms. Anderson said it is a pay go.

The Chair introduced Laura Sitrin, Finance Director for the City of Newport. The city's OPEB trust is approximately 19.4% funded. The city looked at early implementation in 2006, and set up a Government trust under IRC Section 115. They wanted to be able to assume as the investment rate of return which is 7½%. There were three mechanisms for establishing the trust, and they are: a voluntary employee benefit association (VEBA), 401(h) trust and government trust under IRC Section 115. An IRS determination letter was needed for creation on the VEBA and the 401(h) trust. The oversight committee is the City's Trust and Investment Commission. The only expenses that are paid out of the trust at this time are for the money managers, and the assets are invested in the same manner as the pension assets. Ms. Sitrin indicated that the city's current liability is approximately \$119,000,000 and the assets are almost \$30,000,000 leaving an unfunded liability of around \$90,000,000. The liability is being amortized over a 30 year period, and there are 24 years remaining.

Ms. Sitrin said that the city is working diligently with the unions and the non-unionized employees to attempt to reduce the cost of health care and the long term liability. Mr. Pires asked what the city's pensions funded ratio is based on their last valuation. Ms. Sitrin said they were probably 58% for police and probably 40% for fire, which are locally administered. Ms. Sitrin indicated that the City of Newport is very proud of their approach relating to their OPEB liability.

Agenda Item #3 – Correspondence with the Town of Coventry regarding School Pension Plan, Attachment D

Next item on the agenda, the Chair shared with the Commission some communication between the Department of Revenue and the Town of Coventry. A conference call had been held to discuss the FY 2014 municipal incentive aid with the town. The Chair had sent a letter to Coventry to congratulate them on the efforts that they had made on two of their pension plans, but to inform them that they would not be eligible for that aid since the responsibility of the third plan (SRP) had still not been resolved. The Director of Revenue was hoping that the town could come to a positive conclusion in order to receive the municipal incentive aid by the state. The incentive aid was a specific new portion of money to be distributed to the communities who had achieved the benchmarks that had been established with a goal of having sustainable pension plans that are funded. The Chair indicated that the Commission has been quite clear that the community must have a funding improvement plan (FIP) that the local governing body approves. Next year, the Governor has included \$5,000,000 in his budget, and the funds would be afforded to those communities who have implemented a FIP that meets the guidelines. The Chair indicated that she had offered in the letter sent January 15, 2014 that possibly she could seek a modification in the municipal incentive aid statute to give them more time to become compliant.

If conversations that the town was having with all the parties involved in the SRP pension issue were leading to a resolution, then the Commission might suggest to the General Assembly that they put the town's current year's money in escrow so that they would not lose it all together. A copy of Mr. Hoover's responding letter is attached, in which he indicates that the Town of Coventry should not have the money withheld since the town is not responsible for the school plan.

Mr. Pires noted for the record, the Pension Study Commission acts in an advisory capacity, and at the end of the day the General Assembly makes the final decision. He hopes that the Town of Coventry will be able to work together to resolve this issue. The Chair indicated that the Department of Revenue has offered their assistance in any way that they can, and hopes that this will get resolved in a positive way so that the Town of Coventry can receive the municipal aid funds.

Agenda Item #4 – Municipal Incentive Aid - Governor's proposed FY 2015 Budget, Article 2, Attachment E

Chairperson Booth Gallogly indicated that the Municipal Incentive Aid is funded in the Governor's budget at \$5,000,000 for fiscal year 2015, and she hopes that the General Assembly views it positively so that money can continue to go to the communities. Under current law, the monies that a community does not receive would be reallocated to the other communities with a May 2014 deadline.

Agenda Item #5 – Public comments

Thomas Hoover, Town Manager of the Town of Coventry, said that he and the Department of Revenue had a very basic disagreement in that the town believes that they are not responsible for the school and the school committee has taken the position that they are also not responsible. The school plan was set up in 1977, and the teacher's union was very much involved with it at that time. The town has had several meetings between the town council, school committee, non-teaching employees of the school department that the plan covers and the teacher's union. He indicated that another meeting is scheduled within 10 days. Coventry is in critical status for their non-uniform and uniform pension plans. Funding improvement plans (FIPs) were submitted, and the town has set up their annual requirement contributions (ARC), and are meeting that requirement. Through negotiations with the town's non-uniform employees, the employees agreed to an increase in the employee contribution towards their pension plan to the degree that it is more than what they asked for in wage increases. In the town's most recent actuarial valuation performed by Steve Lemanski from Milliman, the non-uniform employees ARC has gone down. The town is awaiting a very critical arbitration ruling on their police contract where the town side has asked for many concessions. This ruling is due in March, and if the town prevails, even slightly, it will have a major influence on the ARC for the police plan. Mr. Hoover stated that the town is meeting their FIPs, and meeting it to the letter of the law. From the Town of Coventry's standpoint, they believe it is unfair to withhold the municipal incentive aid that was set up to be given as an incentive to all cities and towns. In addition, Mr. Hoover said it is very curious to the town that the Town of Coventry is the "only one" in the State of Rhode Island that this has been withheld from. He said the town is working on this issue; however he can not say that the town is at a conclusion on their discussions, but they are continuing to talk. Mr. Hoover said as you can see from his letter, he is hopeful that the Department of Revenue and the Governor changes their position on the municipal aid since the town is adamantly against the action that was taken, and he said "it not only is it unfair, but the town believes it is unlawful."

Mayor Fung mentioned that he had read Mr. Hoover's letter, and he knows that as a last resort that there is a possibility of declaratory judgment in a superior court action to make a determination of

who's responsible for the school plan. The Mayor asked if the town has moved along that direction. Mr. Hoover indicated that it had been discussed. The town is represented by Attorney Vincent Ragosta, trustees by Attorney Guerra and the school committee has an in-house solicitor that represents them. The town felt that it was worthwhile to have a fact-finder help them in their discussions so that they could reduce the issues, if in fact it had to go to that type of declaratory judgment. However, to assume that the Town of Coventry would acquire a \$24,000,000 liability on top of a better than \$70,000,000 liability that they currently already have for uniform and non-uniform employees, and make the taxpayers of the community be responsible for that is locally unheard of and unacceptable; therefore the town is very firm on their position. Chairperson Booth Gallogly, Susanne Greschner, Chief of the Division of Municipal Finance, Town Council President and himself have had discussions on the matter, and continue to disagree and he guesses from the standpoint of the Commission that they do not have any legal authority to do anything. However, Mr. Hoover said that he had to state his case on the matter and he will continue to work with the State in trying to resolve it, as the town is trying to resolve it locally.

Second public comment was from Barry Eyre of KPT Advisors who help plan sponsors reduce the cost of retiree healthcare. He believes it is very valuable to set up an OPEB trust and start to pre-fund it, but one effect on that is the ability to change the discount rate that is being used on the OPEB liability. Mr. Eyre said that starting a trust fund and numerically funding it and then significantly increasing the discount rate that is being used to calculate the liability actually does nothing to reduce the cost of providing those benefits to the retirees. He said it is a financial instrument and it makes it appear that things are better than they actually are. In addition, he said that initially there can be a huge reduction in the OPEB liability just from switching the discount rate and that can give a false sense of security of being on the right track. He suggested that if one is doing that, they need to look at bending their cost trend and he believes there are strategies available to municipalities such as maximizing the subsidies under Medicare and to reduce the cost of providing these benefits, which are real, and have an economic impact. Another critical component he noted is reducing competition into the procurement process for purchasing these benefits. He said there are a lot of municipalities that are not aware that because Medicare is a federal program, that there are insurance companies all across the U.S. that can bid on providing healthcare to the retirees, which are much more effective.

Agenda Item #6 – Adjourn

The Chair indicated that for the next meeting on February 24, 2014, a representative from the State of Massachusetts will be addressing the Commission on the process for inviting communities into a unit trust relating to OPEB, similar to the Municipal Employees Retirement Systems (MERS). Also, he will discuss how Massachusetts communities can participate in group health plans that are consolidated at the State level.

Mayor Polisena made a motion to adjourn which was seconded by Mayor Fung. The meeting adjourned at 11:16 AM.



Chairperson

February 24, 2014
Date

PSC/sm

Addendum to the
January 27, 2014
OPEB and Pension Study
Commission
Meeting Minutes

Massachusetts Municipal Association
OPEB Trust Fund Survey - Spring 2013

Attachment B

Municipality	OPEB Trust Fund	OPEB Stabilization Fund	Locally Administered or State	How much is in fund?	Liability	regular schedule	source of OPEB fundings	plans to establish in next year?	separate line item for retiree health insurance
AMHERST	Yes		have applied to move to PRIT	\$ 1,018,650	\$94 million	some of both. Regular for water and sewer enterprise funds, as we are able for general fund	Medicare D, health holiday (skipped April 2013 contribution to health trust fund due to large balance, and excess state aid for FY13 budget - we passed a budget before getting notice of increased aid for FY13)		no, it is part of health insurance
ANDOVER	Yes		local but looking into PRIT	\$ 1,006,248	\$ 215,000,000	trying to fund \$400,000 per year	general appropriation		no
AVON	yes		local	\$ 187,000		part of budget	appropriation		yes
BARNSTABLE	Yes		local	\$ 1,046,466	\$ 160,000,000	both. Annual appropriation (\$250,000 proposed in FY14) increasing \$100,000 per year and plans to add to the appropriation any unexpected health insurance appropriation from the previous year closed out to fund balance	general appropriation and insurance reserve		yes
BELMONT	yes		local	\$ 1,570,564	\$194,828,649 as of 7/1/12	yes	5% of free cash/excess reserve level of 10% total		yes
BILLERICA	yes		no	\$ 555,000	\$ 276,000,000	as monies come available	initial from municipal health insurance reform, pension savings		no
BLACKSTONE	unknown							unknown	unknown
BOXFORD	yes		PRIT	\$ 522,000	\$ 16,000,000	as available	general appropriation and Medicare D reimbursement		yes
BRAINTREE	yes		local, but working to put funds in PRIT	\$ 1,956,740	\$ 170,000,000	Regular schedule FY2014 \$580,000 increasing annually	Funding source is general appropriation \$145,000 in FY2012 increasing by \$145,000 per year. In FY33 pension		no- We have one line item titled Group Life and Medical Insurance. It includes funds
BROCKTON	no							no	the retiree health insurance has a separately budgeted calculation but the appropriated budget is for all costs. The backout shows retiree component
BROOKLINE	yes		local	\$ 20,600,000	\$ 189,000,000	regular and increasing	property tax, medicare part D, special revenue and enterprise, non contribuion retirement run off		yes
CANTON	Yes		local	\$ 150,000	\$131,000,000 as of 1/1/2011	regular operating budget as of FY13	general appropriation for OPEB was made possible due to savings from health insurance reform and new revenue from local option meals and hotel tax	set up last year	retiree health insurance on a pay as you go basis is included in the total health insurance budget but we have added OPEB as a fixed cost budget item
CHARLTON	yes		none	\$ -	\$ 2,000,000	no monies are available			no, included with group health
CHILMARK	yes		a pooled county trust	\$ 410,000	\$ 2,500,000	regularly scheduled	general appropriation		no

Municipality	OPEB Trust Fund	OPEB Stabilization Fund	Locally Administered or State	How much is in fund?	Liability	regular schedule	source of OPEB fundings	plans to establish in next year?	separate line item for retiree health insurance
DARTMOUTH	yes		local but looking to go to PRIT	\$ 1,100,000	\$ 53,000,000	regularly scheduled	general appropriation, previously free cash		yes
DEDHAM	yes		local	\$ 3,180,875	\$ 10,319,915	part of regular budget	municipal health insurance reform		no combined amount for all health
DOVER	yes		local	\$ 2,925,000	\$ 6,025,000	regular	general appropriation		no
EAST BRIDGEWATER	yes		local	\$ 10,000	\$ 32,000,000	yes	general appropriation		no
EASTHAM	no							no	no
EGREMONT	yes 6ASB			\$ 50,000					yes
ERVING	yes		local	\$ 1,300,000		regularly scheduled \$290,000 - \$300,000	general appropriation		yes
ESSEX	yes		local	\$ 15,000		regularly \$15,000	budgeted annually		no
FAIRHAVEN	yes		local	\$ 50,000		as monies become available	general appropriation		
FALL RIVER	no							hopefully	no
FITCHBURG	no							yes	no
FOXBOROUGH	yes		local	\$ 2,898,945	\$ 52,323,236	an increasing amount annually. Just voted to add \$564,069 in FY14 as last night's annual town meeting. Looking to add at least another 100K to our annual commitment so ultimately get to the ARC	meals tax receipts as per BOS policy and Water and Sewer Enterprise receipts for those employee's respective shares		No, we fund OPEB via its own warrant article. Current retiree health insurance costs are calculated separately but voted as part of the overall health insurance budget.
FRANKLIN	no, stabilization fund	OPEB stabilization fund (no trust)	looking at PRIT	\$ 600,000	\$ 84,000,000	both	budget and savings		no
FREETOWN	yes		local	\$ -		as monies come in			no
GROVELAND	no			\$ -	\$ 2,700,000			no	no
HAMILTON	yes		other	\$ 100,000		annually based on annual review	appropriation		
HARVARD	yes		PRIT	\$ 250,000	\$ 23,000,000	we plan to fund annually with additional added funds if extra funds become available	general appropriation		no, its already included with active
HINGHAM	yes		PRIT	\$ 3,970,574	\$ 57,600,000	regularly scheduled amount	general appropriation		yes
HOLBROOK	yes		no	\$ 20,000	\$ 32,000,000		general appropriation		no
HOLDEN	yes		local	\$ 500,000		as available	general appropriation		no
IPSWICH	yes		moving to PRIT as of July 2013	\$ 1,317,184	gen fund \$26,755,662, total town \$29,719,285	as money becomes available	general appropriation, medicare part D, free cash		no- have line item for active employees and retirees
LEE	yes		local	\$ 200,000	\$ 19,000,000		medicare D reimbursements, etc		no
LEOMINSTER	yes		local- do not agree with their City Council approval requirments	\$ 5,000,000	4.25% unfunded rate-\$212,007,537 and 7.5% fully funded rate-\$133,404,332	general fund, Water fund and Sewer fund	General fund appropriation, medicare Part D, Water rates, Sewer rates		yes
LONGMEADOW	yes		local	\$ 413,000	\$ 38,000,000	just started regular contribution in fy14 budget	municipal health insurance reform, medicare D general appropriation		no

Municipality	OPEB Trust Fund	OPEB Stabilization Fund	Locally Administered or State	How much is in fund?	Liability	regular schedule	source of OPEB fundings	plans to establish in next year?	separate line item for retiree health insurance
MARLBOROUGH	yes		local	\$ 5,000,000	\$ 63,000,000	as monies become available	general medicare D		yes
MARSHFIELD	yes		local	\$ 60,979	\$ 82,600,000	funding 10k annually until additional funds become available	free vash, other unused articles, tax levy		no
MEDFIELD	no, stablization fund	no, it has an OPEB stabilization fund	local	\$ 303,748	at a 4.25% discount rate, \$39,800,000		county retirement system early payment discount and general appropriation	no	yes
MEDWAY	yes		local	\$ 50,000	\$ 30,000,000	developing an OPEB funding plan for presentation to BOS	have been prepaying the retirement and allocating the savings to OPEB trust		no
MIDDLETON	yes		local	\$ 425,000	not sure	as come available			
MILFORD	yes		local	\$ 700,000	\$ 58,000,000	yes, FY14 budget \$700,000	general appropriation and \$21-23 health insurance changes		no- yes for OPEB appropriation
NEEDHAM	yes		in the process of transferring to PRIT	\$ 10,100,000	\$52,698,563 as of June 30,2011	per funding schedule	annual budget appropriation		yes
NEW MARLBOROUGH	no							no	no
NEWBURY	yes		local	\$ 75,000	\$ 4,300,000	regularly scheduled	general appropriation		no
NEWTON	yes		transferring to PRIT	\$ 482,810	\$601,000,000 as of 6/30/2012	employer contribution of 2.5% of payroll for new health plan participants	annual appropriation		yes
NORFOLK	no				\$ 3,042,152			no plans at this time	no
NORTH ANDOVER	yes		local	have not started funding yet	\$118,600,000 of July 2010				
NORTHBOROUGH	yes		not yet funded	\$ -	\$ 28,000,000				no
NORTON	yes		local	\$ 41,000	\$ 70,000,000	as available- typically of medicare subsidy receipts	medicare D reimbursements		no
ORLEANS	no, stablization fund	no, stabilization fund	no	\$ 300,000	\$ 28,000,000	2 years at 150k, hope to continue annually	general appropriation	waiting for IGR and A&F reports	no
PETERSHAM	no							no	no
READING	yes		currently local, but intend on investing in PRIT	\$ 1,364,301	\$ 82,667,461	each year a figure is funded in the budget for OPEB that is usually less than the ARC	gen appropriation and health insurance budget savings		no
ROWLEY	yes		local	\$ 250,000		trying to be regularly			no
SEEKONK	yes		no	\$ 10,088	\$ 30,623,140	monies come available, looking to transfer old health insurance trust to OPEB trust w/ town meeting approval	general appropriation		no, but can account for all retiree insurance in separate spreadsheet
SHARON	no							yes	no
SHEFFIELD	no							no	no
SHERBORN	yes	yes		0 in trust, \$400,749 in OPEB stabilizationfund	\$8,000,000- local region another 8?	moving towards regularly scheduled	this year appropriated at TM, prior free cash and transfers		this year

Municipality	OPEB Trust Fund	OPEB Stabilization Fund	Locally Administered or State	How much is in fund?	Liability	regular schedule	source of OPEB fundings	plans to establish in next year?	separate line item for retiree health insurance
SOUTHBOROUGH	yes		local	\$ 50,000	\$ 28,194,476	available	general appropriation		no
SOUTHBRIDGE	no							yes	no
SOUTHWICK	yes		local	\$ 20,000		annually			
STOCKBRIDGE	no							yes	no
TOPSFIELD	yes		local	\$ 230,000	\$ 21,000,000	when available	general fund, water enterprise		no
TRURO	yes		local	\$ 50,000	\$ 25,261,128	as funds become available	free cash		no, retiree benefits are combined with active employee benefits in a single line item in annual omnibus budget
WARE	yes		local	\$ -		just set up and still deciding			yes
WELLESLEY	yes		local	\$ 27,400,000	\$ 98,900,000	regularly scheduled amount, the ARC	general appropriation and override		no- all health insurance goes as a single appopriation
WELLFLEET	yes		local	\$ 250,000		yes annually			yes
WEST TISBURY	yes		local- Dukes county pooled OPEB trust authorized by special legislation	\$ 881,377	\$ 6,727,895	\$175,000/year	until FY14 it has been an appropriatio from free cash at annual town meeting; beginning FY14 it is part of the annual health insurance budget		beginning FY14 for tracking purposes, but appropriation is still combined
WESTWOOD	yes		local	\$ 1,400,000	\$ 59,000,000	approx \$500k per year now a regular amount	money saved from health insurance reform		no
WEYMOUTH	yes		local	\$ 1,000,000	\$ 236,000,000	as monies come available	free cash, unexpected health insurance line item		no
WILBRAHAM	no		local	\$ 221,793	\$ 24,603,681	as monies become available	general fund appropriations	yes	no
WINTHROP	no		PRIT						
WRENTHAM	yes			none		no	medicare D reimbursements recommended		no

DECLARATION

of

IRREVOCABLE TRUST AGREEMENT

by and between

THE CITY OF NEWPORT, RHODE ISLAND

And

THE CITY COUNCIL OF THE CITY OF NEWPORT
(the "Trustees")

for the

NEWPORT OTHER POST-EMPLOYMENT BENEFITS (OPEB) TRUST

As of June 30, 2006

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This **TRUST AGREEMENT** dated as of June 30, 2006,

BETWEEN

the CITY OF NEWPORT, a municipal corporation of the State of Rhode Island (the "City"),

AND

THE CITY COUNCIL OF THE CITY OF NEWPORT
(the "Trustees")

WITNESSETH THAT:

WHEREAS, the Council of the City of Newport has, by Resolution No. ___ and Resolution No. ___, authorized the creation of an OPEB Trust in order to accrue assets for the payment of retiree health insurance and life insurance where applicable, and has further authorized its Mayor John J. Trifero to execute this Declaration of Trust Agreement; and

WHEREAS, the City has contributed and will, in the future, contribute to this irrevocable trust assets which are dedicated to providing benefits to retirees and their beneficiaries; and

WHEREAS, the City desires to establish a formal trust agreement with respect to the OPEB Trust as delineated in this document and the City of Newport Ordinances; and

WHEREAS, the City has authorized the execution of this Trust Agreement with the Trustees to restate the Trustees' responsibilities as the trustee (the "Trustee") of the OPEB Trust Fund created pursuant to City Council authorization;

NOW, THEREFORE, in consideration of Trustee's appointment and of the premises and covenants contained herein, the City and the Trustee agree as follows:

Section 1. Creation of Trust

1.1 Trustee. The Trustee shall continue to serve as the trustee of the OPEB Trust Fund created in accordance with and in furtherance of the OPEB Trust, until its removal or resignation in accordance with section 6 hereof.

1.2 Trust Fund. The Trustee hereby acknowledges its retention of the assets comprising the OPEB Trust Fund, and agrees to accept additional contributions to the Trust from the City and, if applicable, Participants, in accordance with City Council authorization. All such property and contributions, together with income thereon and increments thereto, shall constitute the "OPEB Trust Fund" to be held in accordance with the terms of this Trust Agreement.

1.3 Name. The name of this trust shall be the "Newport Other Post-Employment Benefit Trust".

1.4 Non-diversion of Assets. In no event shall any part of the corpus or income of the OPEB Trust Fund be used for, or diverted to, purposes other than for the exclusive benefit of the Participants and their Beneficiaries prior to the satisfaction of all liabilities for retiree health and, where applicable, life insurance in accordance with the terms of all bargaining contracts and local ordinances and resolutions.

1.5 The Trustees of the OPEB Trust shall be the current sitting members of the City Council of the City of Newport as of June 30, 2006 and shall change as and when new members are elected to the Council of the City of Newport.

Section 2. Investment of OPEB Trust Fund and Administrative Powers of the Trustee

2.1 Responsibility for Investment. The Trustee shall invest the OPEB Trust Fund in such property as the Trustee, in its discretion, shall deem advisable, subject to any requirements of applicable law. However, the Trustee shall not make any investment or take any action involving those assets for which it remains responsible which would impair the qualification of the Trust under sections 401 and 501 of the Internal Revenue Code of 1986, as amended from time to time.

2.2 Trustee Powers. In addition to, and not by way of limitation upon, the fiduciary powers granted to it by law, the Trustee shall have the following specific powers, subject to the limitations set forth in section 2.1:

2.2-1 to receive, hold, manage, invest, and reinvest the money or other property which constitutes the OPEB Trust Fund, without distinction between principal and income;

2.2-2 to invest or reinvest the whole or any portion of the money or other property which constitutes the OPEB Trust Fund in such common or preferred stocks, investment trust shares, mutual funds, common trust funds, partnership interests, bonds, notes, or other evidences of indebtedness, and real and personal property as the Trustee in its absolute judgment and discretion may deem to be for the best interests of the OPEB Trust Fund, regardless of whether any such investment or property is:

- (a) of a wasting asset nature;
- (b) temporarily nonincome producing; or
- (c) within or without the State of Rhode Island or the United States;

2.2-3 to invest in bonds, notes, or other obligations of the City;

2.2-4 to invest in real property purchased from, leased to, and managed or operated by or for the City, upon such terms and conditions as the Trustee in its absolute discretion may deem advisable;

2.2-5 to exchange any investment or property, real or personal, for other investments or properties at such time and upon such terms as the Trustee shall deem proper;

2.2-6 to sell, transfer, convey, or otherwise dispose of any investment or property, real or personal, for cash or on credit, in such manner and upon such terms and conditions as the Trustee shall deem advisable; and no person dealing with the Trustee shall be under any duty to inquire as to the validity, expediency, or propriety of any such sale or as to the application of the purchase money paid to the Trustee;

2.2-7 to hold any investment or property (a) in the name of the Trustee, with or without the designation of any fiduciary capacity, (b) in the name of a nominee, (c) unregistered, or (d) in such other form that title may pass by delivery; provided, however, that the Trustee's records always shall show that such investment or property belongs to the OPEB Trust and the Trustee shall not be relieved hereby of its responsibility to maintain safe custody of the OPEB Trust Fund;

2.2-8 to vote in person or by proxy all stocks and other securities having voting privileges; to exercise or refrain from exercising any option or privilege with respect to stocks and other securities, including any right or privilege to subscribe for or otherwise to acquire stocks and other securities, or to sell any such right or privilege; to assent to and join in any plan of refinance, merger, consolidation, reorganization, or liquidation of any corporation or other enterprise in which this Trust may have an interest, to deposit stocks and other securities with any committee formed to effectuate the same, to pay any expense incidental thereto, to exchange stocks and other securities for those which may be issued pursuant to any such plan, and to retain as an investment the stocks and other securities received by the Trustee; and to deposit any investment in a voting trust;

2.2-9 to manage and operate any real property which shall at any time constitute an asset of the OPEB Trust Fund; to make repairs, alterations, and improvements thereto; to insure such property against loss by fire or other casualty; to lease or grant options for the sale of such property, which lease or option may be for a period of time which may extend beyond the life of this Trust; and to take any other action or enter into any other contract respecting such property which is consistent with the best interests of the OPEB Trust;

2.2-10 to employ and consult with any legal counsel, who also may be counsel to the City, with respect to the meaning or construction of this Trust Agreement, the extent of the Trustee's obligations and duties hereunder, and whether the Trustee should take or decline to take a particular action hereunder, and the Trustee shall be fully protected with respect to any action taken or omitted by it in good faith pursuant to such advice;

2.2-11 to defend any action or proceeding instituted against the OPEB Trust Fund, to institute any action on behalf of the OPEB Trust Fund, and to compromise or submit to arbitration any dispute concerning the OPEB Trust Fund;

2.2-12 to make, execute, acknowledge, and deliver any and all documents of transfer and conveyance and any and all other instruments that may be necessary or appropriate to carry out the powers herein granted;

2.2-13 to commingle the OPEB Trust Fund created pursuant hereto, in whole or in part, in a single trust with all or any portion of any other trust fund, assigning an undivided interest to each such commingled trust fund; provided that such commingled

trust is itself exempt from taxation pursuant to section 501(a) of the Code, or its successor section, and that the trust agreement governing such commingled trust shall be deemed incorporated by reference;

2.2-14 where two or more trusts governed by this Trust Agreement have an undivided interest in any property, to credit the income from such property to such trusts in proportion to their undivided interests, and when non-pro rata distributions of property or money are made from such trusts, to make appropriate adjustments to the undivided fractional interests of such trusts;

2.2-15 to invest all or any portion of the OPEB Trust Fund in one or more group annuity contracts, deposit administration contracts, and other such contracts with insurance companies, including any commingled separate accounts established under such contracts, as may be determined by the Trustee to be desirable and for the best interest of the OPEB Trust Fund;

2.2-16 generally, with respect to all cash, stocks, and other securities, and property, both real and personal, received or held in the OPEB Trust Fund by the Trustee, to exercise all the same rights and powers as are or may be lawfully exercised by persons owning cash, stocks and other securities, or such property in their own right; and to do all other acts, whether or not expressly authorized, which it may deem necessary or proper for the protection of the OPEB Trust Fund; and

2.2-17 whenever more than two persons shall qualify to act as co-trustees, to exercise and perform every power (including discretionary powers), authority or duty by the concurrence of a majority of them with the same effect as if all had joined therein, except that the unanimous vote of such persons shall be necessary to determine the number (one or more) and identity of persons who may sign checks, make withdrawals from financial institutions, have access to safe deposit boxes, or direct the sale of trust assets and the disposition of the proceeds.

Section 3. Compensation and Indemnification of Trustee and Payment of Expenses and Taxes

3.1 Compensation. The Trustee shall not receive any compensation for its services, but the necessary expenses of the Trustee under the Plan shall be paid by the City.

3.2 Indemnification. Notwithstanding any other provision of this Trust Agreement, each member of the Board shall be indemnified and held harmless by the City to the fullest extent permitted by law against any and all costs, damages, expenses, and liabilities reasonably incurred by or imposed upon such individual in connection with any claim made against him or in which he may be involved by reason of his being, or having been, a trustee hereunder, to the extent such amounts are not satisfied by insurance maintained by the City.

3.3 Expenses. All expenses of administering this Trust and the Plan, whether incurred by the Trustee or the City, shall be paid by the Trustee from the OPEB Trust Fund to the extent such expenses shall not have been assumed by the City or the Trustee.

3.4 Taxes. All taxes of any kind that may be levied or assessed upon the OPEB Trust Fund, its income or assets, shall be paid from the OPEB Trust Fund, but the Trustee shall not be obliged to pay such tax so long as it shall contest the validity of such levy or assessment upon the advice of counsel.

Section 4. Records and Valuation

4.1 Records. The City shall maintain accurate and detailed records and accounts of all investments, receipts, disbursements, and other transactions made by it with respect to the OPEB Trust Fund, and require an annual audit of all accounts, books, and records relating thereto.

Section 5. Distributions and Policies

5.1 Instructions to Trustee. The Trustee shall pay such sums to such persons and at such times as shall be set forth in written instructions from the City or from such person as the City may authorize. The Trustee shall be fully protected in taking any action based upon such written instructions and shall have no power, authority, or duty to interpret the regulations or laws or to inquire into the decisions or determinations of the City, or to question the instructions given to it by the City.

5.2 Plan Termination. In the event of a termination of the Trust, the Trustee shall continue to disburse funds in accordance with the instructions of the City.

Section 6. Removal, Resignation, and Appointment of Trustees

The City may at any time, if and to the extent permitted under applicable law, remove any person serving as a trustee hereunder by giving to such person written notice of removal and the name and address of any successor trustee. Any person serving as a trustee hereunder may resign at any time by giving written notice to the City. Any such removal or resignation shall take effect immediately upon delivery of such written notice by the trustee or by the City, as the case may be. The removed or resigned trustee shall transfer all records pertaining thereto to the successor or remaining trustee. Thereafter, the removed or resigned trustee shall have no liability for the OPEB Trust Fund or for its administration by the successor or remaining trustee. The City may also, upon written notice to each person currently serving as a trustee, appoint one or more persons to serve as co-trustees hereunder.

Section 7. Miscellaneous

7.1 Right to Amend. This Trust Agreement may be amended from time to time by an instrument in writing executed by the City; provided, however, that no amendment may divert any portion of the OPEB Trust Fund to purposes other than the exclusive benefit of the Participants and their Beneficiaries. Any amendment shall apply to the OPEB Trust Fund as constituted at the time of the amendment as well as to that portion of the OPEB Trust Fund which is subsequently acquired.

7.2 Irrevocability. This Trust Agreement is irrevocable, and the Grantor expressly waives all rights and powers, whether alone or in conjunction with others, and regardless of

when or from what source he may have acquired such rights or powers to revoke or terminate this trust.

7.3 Nonresponsibility for Funding. The Trustee shall be under no duty to enforce the payment of any contributions and shall not be responsible for the adequacy of the OPEB Trust Fund to satisfy any obligations for benefits.

7.4 Reports. The Trustee shall file any report which it is required by law to file with any governmental authority with respect to this Trust, and the City shall furnish to the Trustee whatever information is necessary to prepare the report.

7.5 Dealings with Trustee. Persons dealing with the Trustee shall be under no obligation to inquire concerning the validity of anything which the Trustee purports to do, nor need any person see to the proper application of any money paid or any property transferred upon the order of the Trustee or to inquire into the Trustee's authority as to any transaction.

7.6 Successor Trustees. This Trust Agreement shall apply to any person who shall be appointed to succeed the person currently appointed as the initial Trustee, and any reference herein to the Trustee shall be deemed to include anyone or more individuals or corporations, or any combination thereof, who or which shall at any time act as a co-trustee or as the sole trustee hereunder. Notwithstanding any provision of this Trust Agreement to the contrary, at any time that there are two or more individuals or corporations, or any combination thereof, who are qualified to act as co-trustees hereunder, such co-trustees may from time to time agree as to the allocation of specific responsibilities, obligations, or duties among themselves and, to the extent permitted by law, any trustee to whom certain responsibilities, obligations, or duties have not been so allocated shall not be liable for any action taken or omitted to be taken by the trustee to whom such responsibilities, obligations, or duties have been so allocated.

7.7 Governing State Law. This Trust Agreement shall be interpreted in accordance with the laws of the State of Rhode Island to the extent those laws are not superseded by federal law.

IN WITNESS WHEREOF, JOHN J. TRIFERO, duly authorized Mayor of the City of the City of Newport has hereto executed this document this 5 day of December, 2006.

ATTEST:

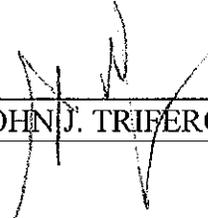


Approved as to Form

Joseph J. Nicholson, Jr.

CITY OF NEWPORT, RHODE ISLAND

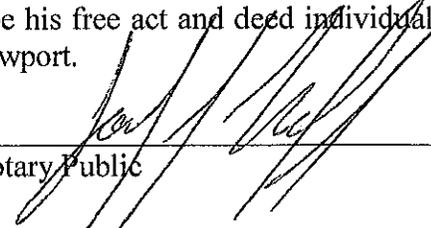
By:



JOHN J. TRIFERO, Mayor

STATE OF RHODE ISLAND
COUNTY OF NEWPORT

In the City of Newport, on the 5 day of December, 2006 before me personally appeared JOHN J. TRIFERO, known to me to be the Mayor of the City of Newport, and the party for and on behalf of the City of Newport, executed the foregoing instrument and he acknowledged said instrument by him so executed to be his free act and deed individually and in said capacity and the free act and deed of the City of Newport.



Notary Public

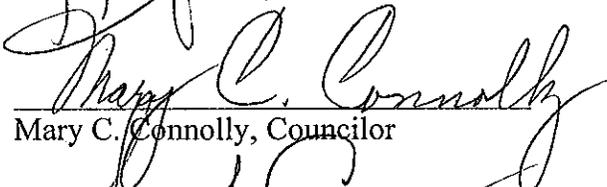
We, the undersigned, current sitting members of the Council of the City of Newport, hereby accept the nomination as Trustee of the Newport Other Post-Employment Benefits (OPEB) Trust:

12/5/06
Date



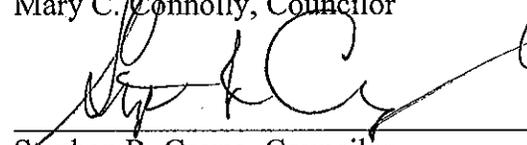
John J. Trifero, Mayor

12/5/06
Date



Mary C. Connolly, Councilor

12/5/06
Date



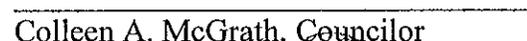
Stephen R. Coyne, Councilor

12/5/06
Date



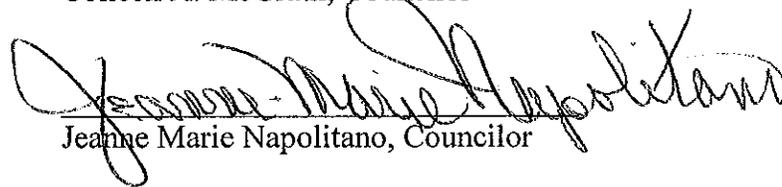
Charles Y. Duncan, Councilor

12/5/06
Date



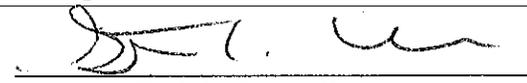
Colleen A. McGrath, Councilor

12/5/06
Date



Jeanne Marie Napolitano, Councilor

11/16/2006
Date



Steve C. Waluk, Councilor

City of Newport OPEB Trust



Types of Trusts

- * A trust is required with provisions that the assets are used for the exclusive use of OPEB, and related expenses
- * IRS rules include 3 mechanisms for establishing trusts on a tax advantaged basis
 - Voluntary Employee Benefit Association (VEBA)
 - 401(h) trust
 - Government trust under IRC Section 115

Section 115 Trust

Governmental Trust is a trust that qualifies for exemption from Federal income tax under Section 115.

Established only for essential government function and the income earned on the trust's investments have to accrue to the state or local government's benefit

A disadvantage to a governmental trust is that there is no explicit legal authority that addresses the use of the fund for the retiree health care obligation

However, Treasury Regulation 301.7701-1(a)(3) and several IRS Private Letter Rulings are favorable to using a Section 115 master trust to pre-fund OPEB obligations.

Section 115 Trusts

- * IRS approval is not required. However, an IRS private letter ruling (PLR) is recommended for a prototype plan document used by multiple employers.
- * Plan sponsor's governing body (City Council) is responsible for the Trust; an independent governance structure is not required.
- * Should establish an oversight committee

City of Newport

- * The City of Newport established a Section 115 Trust on June 30, 2006 for the purpose of pre-funding OPEB
- * The City Council is the Trustee and the oversight committee is the City's Trust and Investment Commission established by City Charter

City Policies

- * City has an annual actuarial valuation and has fully funded the ARC in the last few years through a combination of pay-as-you-go and transfers into the Trust. This is a Council priority.
- * Benefits will not be paid from Trust until such time as City administration feels assets are sufficient to support benefit payments. Trust expenses are paid from Trust including money manager fees.

City of Newport

- * Assets are invested in the same manner as pension assets.
- * OPEB liability fluctuated a lot during the first three or four years but has stabilized in the last couple of years. City works constantly on changing promises in order to reduce the liability and any future liabilities.

Annual Required Contribution Valuation Results As of July 1

	2013	2012
1. Actuarial Accrued Liability	119,400,005	119,342,233
2. Assets as of 06/30	29,027,818	23,113,176
3. Unfunded Actuarial Accrued Liability (2. - 3.)	90,372,187	96,229,057
4. Normal Cost	1,961,338	2,115,049
5. Unfunded Actuarial Accrued Liability	\$90,372,187	\$96,229,057
6. Amortization Cost	5,240,639	5,429,568
Annual OPEB Contribution		
8. Normal Cost	\$1,961,338	\$2,115,049
9. Amortization Cost	5,240,639	5,429,568
10. Total ARC	7,201,977	7,544,617
11. Interest on unfunded (overfunded) ARC	453,362	575,863
12. ARC adjustment	(350,536)	(433,228)
13. Total (11.) + (12.) + (13.)	7,304,803	7,687,252
Assumptions		
Discount Rate	7.50%	7.50%
Ultimate Healthcare Cost Trend Rate	3.80%	3.80%

Appendix B: Breakdown of the Annual OPEB Cost and Accrued Liability by Departments

City of Newport Post Retirement Valuation

As of 7/1/2013	Beach	Equipment Operations	Fire	General Government	Harbor	Library	Planning	Police	Public Safety	Public Works	Recreation	School	Water	All
Number of Employees														
Current Retirees	1	2	97	29	0	6	5	87	12	16	2	241	30	528
Future Retirees	2	1	86	41	2	21	8	78	16	33	3	285	46	622
Total	3	3	183	70	2	27	13	165	28	49	5	526	76	1,150
Actuarial Accrued Liability														
Current Retirees	139,552	304,091	13,718,930	2,594,981	0	354,124	604,338	12,897,977	1,296,321	1,844,508	361,870	49,016,249	3,771,037	86,903,978
Future Retirees	23,270	41,015	6,405,535	953,288	46,580	1,529,236	170,616	6,535,102	640,856	1,030,732	96,045	13,645,313	1,378,439	32,496,027
Total	162,822	345,106	20,124,465	3,548,269	46,580	1,883,360	774,954	19,433,079	1,937,177	2,875,240	457,915	62,661,562	5,149,476	119,400,005
Normal Cost														
Current Retirees	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Future Retirees	2,681	987	395,585	75,951	4,546	79,310	13,155	367,288	44,907	74,860	3,869	793,766	104,433	1,961,338
Total	2,681	987	395,585	75,951	4,546	79,310	13,155	367,288	44,907	74,860	3,869	793,766	104,433	1,961,338
Annual OPEB Cost														
Normal Cost	2,681	987	395,585	75,951	4,546	79,310	13,155	367,288	44,907	74,860	3,869	793,766	104,433	1,961,338
Amortization Cost	7,146	15,147	883,292	155,739	2,044	82,663	34,014	852,946	85,026	126,198	20,099	2,750,307	226,018	5,240,639
Interest on Unfunded ARC	618	1,310	76,413	13,473	177	7,151	2,943	73,787	7,355	10,917	1,739	237,926	19,553	453,362
Adjustment to the ARC	-478	-1,013	-59,082	-10,417	-137	-5,529	-2,275	-57,052	-5,687	-8,441	-1,344	-183,963	-15,118	-350,536
Total	9,968	16,431	1,296,208	234,745	6,631	163,595	47,836	1,236,970	131,601	203,535	24,362	3,598,036	334,886	7,304,803



TOWN OF CHARLESTOWN

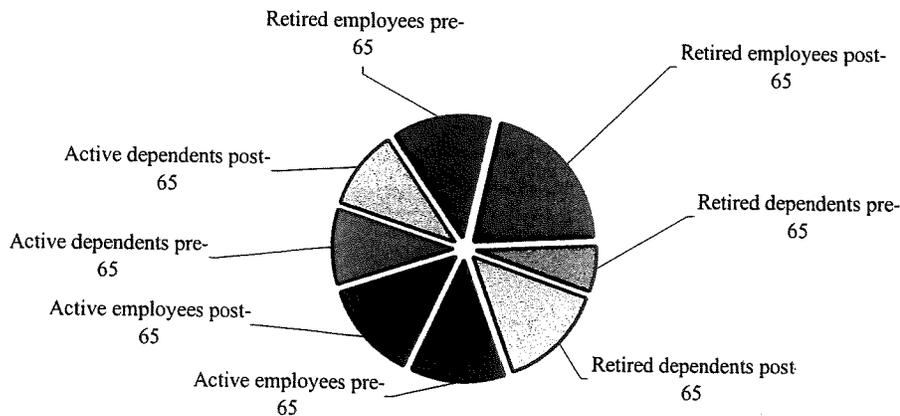
Patricia Anderson
Treasurer
panderson@charlestownri.org
401-364-5990

**TOWN OF CHARLESTOWN, RI
OTHER POST-EMPLOYMENT BENEFITS PROGRAM**

SUMMARY OF LIABILITIES AS OF JULY 1, 2006

We have calculated the Accrued Liability separately for two groups of Town employees, who are eligible for different retiree medical benefits. We have broken the accrued liability for each group into several pieces: benefits that are expected to be paid prior to age 65 (i.e. prior to Medicare) and after age 65 (i.e. after Medicare) to current active members and their covered dependents after retirement, and the same figures for members who have already retired and are currently receiving benefits. In all cases, the Accrued Liability only reflects benefits that are paid for by the Town.

	CPMA	Police	Total
Current active members			
Employees under age 65	\$47,000	\$379,000	\$426,000
Employees over age 65	126,000	319,000	445,000
Dependents under age 65	45,000	288,000	333,000
Dependents over age 65	<u>99,000</u>	<u>257,000</u>	<u>356,000</u>
Total	317,000	1,243,000	1,560,000
Current retired members			
Employees under age 65	10,000	436,000	446,000
Employees over age 65	378,000	318,000	696,000
Dependents under age 65	10,000	199,000	209,000
Dependents over age 65	<u>230,000</u>	<u>250,000</u>	<u>480,000</u>
Total	628,000	1,203,000	1,831,000
Total Accrued Liability	945,000	2,446,000	3,391,000



**TOWN OF CHARLESTOWN, RI
OTHER POST-EMPLOYMENT BENEFITS PROGRAM**

FUNDING ALTERNATIVES

The annual cost of the retiree medical program consists of two pieces: a **Normal Cost** (the cost of benefits earned each year should be accrued in that year) plus a **Past Service Cost** (a catch-up accrual to amortize the Unfunded Accrued Liability). The amortization period should be reasonably related to the period of service over which retiree medical benefits are earned.

A common amortization technique produces annual payments that are designed to increase over time as payroll grows. On this basis, the annual cost is determined as follows:

	CPMA	Police	Total
Accrued Liability	945,000	2,446,000	3,391,000
Assets	0	0	0
Unfunded Accrued Liability	945,000	2,446,000	3,391,000
Amortization Period	30	20	
Past Service Cost	55,000	178,000	233,000
Normal Cost	15,000	110,000	125,000
Interest to end of year	5,000	22,000	27,000
Total Cost for FY 2007	75,000	310,000	385,000

An alternative amortization technique is to calculate a level annual payment, much like a mortgage, which produces a higher amount in the short term but one that will not go up over time (unless the plan has adverse experience). On this basis, the annual cost is:

Past Service Cost	74,000	223,000	297,000
Normal Cost	15,000	110,000	125,000
Interest to end of year	7,000	25,000	32,000
Total Cost for FY 2007	96,000	358,000	454,000

As with the Accrued Liability, the Total Cost is highly dependent on the medical inflation rate and discount rate assumptions:

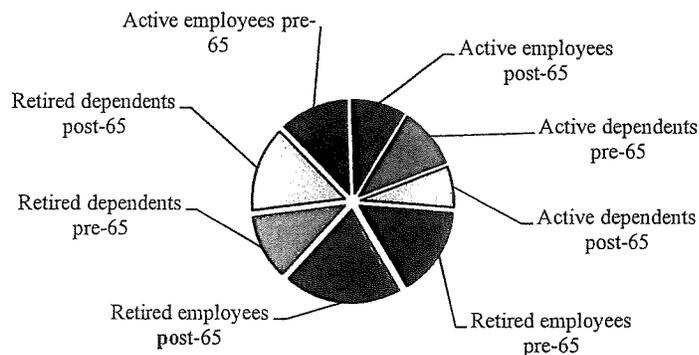
	<u>Discount rate</u>	<u>Medical inflation rate</u>		
		less 1.00%	Baseline	plus 1.00%
Total Cost for FY 2007	7.50%	320,000	385,000	471,000
using Level Percent	6.50%	362,000	443,000	551,000
Amortization	4.00%	543,000	698,000	913,000

**TOWN OF CHARLESTOWN
OTHER POST-EMPLOYMENT BENEFITS PROGRAM**

SUMMARY OF LIABILITIES AS OF JULY 1, 2009

We have calculated the Accrued Liability separately for two groups of Town employees, who are eligible for different OPEB benefits. We have broken the accrued liability for each group into several pieces: benefits that are expected to be paid prior to age 65 (i.e. prior to Medicare) and after age 65 (i.e. after Medicare) to current active members and their covered dependents after retirement, and the same figures for members who have already retired and are currently receiving benefits. In all cases, the Accrued Liability only reflects benefits that are paid for by the Town, taking into account any implicit rate subsidies.

	CPMA	Police	Total
Current active members			
Employees under age 65	\$50,000	\$533,000	\$583,000
Employees over age 65	72,000	377,000	449,000
Dependents under age 65	44,000	472,000	516,000
Dependents over age 65	<u>55,000</u>	<u>294,000</u>	<u>349,000</u>
Total	221,000	1,676,000	1,897,000
Current retired members			
Employees under age 65	0	763,000	763,000
Employees over age 65	309,000	692,000	1,001,000
Dependents under age 65	0	552,000	552,000
Dependents over age 65	<u>188,000</u>	<u>546,000</u>	<u>734,000</u>
Total	497,000	2,553,000	3,050,000
Total Accrued Liability	718,000	4,229,000	4,947,000



**TOWN OF CHARLESTOWN
OTHER POST-EMPLOYMENT BENEFITS PROGRAM**

ANNUAL REQUIRED CONTRIBUTION

The Annual Required Contribution (ARC) for the OPEB program consists of two pieces: a **Normal Cost** (the cost of benefits earned each year should be accrued in that year) plus a **Past Service Cost** (a catch-up accrual to amortize the Unfunded Accrued Liability). The amortization period is 30 years starting FY 2009 for CPMA and 20 years starting FY 2009 for Police. The amortization method produces annual payments that will increase over time as payroll grows. On this basis, the ARC is determined as follows:

	CPMA	Police	Total
Accrued Liability	\$718,000	\$4,229,000	\$4,947,000
Assets	73,000	429,000	502,000
Unfunded Accrued Liability	645,000	3,800,000	4,445,000
Amortization Period	28	18	
Payroll Growth Rate	3.00%	3.00%	3.00%
Past Service Cost	39,000	296,000	335,000
Normal Cost	9,000	146,000	155,000
Interest	4,000	33,000	37,000
ARC for FY 2011	52,000	475,000	527,000
Expected Benefit Payouts	42,000	139,000	181,000
Net Budget Impact	10,000	336,000	346,000

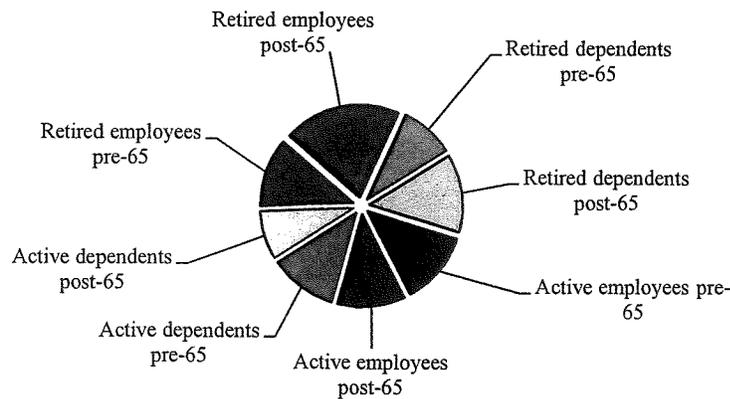
The ARC is assumed to be paid at the beginning of the Fiscal Year.

**TOWN OF CHARLESTOWN
OTHER POST-EMPLOYMENT BENEFITS PROGRAM**

SUMMARY OF LIABILITIES AS OF JULY 1, 2012

We have calculated the Accrued Liability separately for two groups of Town employees, who are eligible for different OPEB benefits. We have broken the accrued liability for each group into several pieces: benefits that are expected to be paid prior to age 65 (i.e. prior to Medicare) and after age 65 (i.e. after Medicare) to current active members and their covered dependents after retirement, and the same figures for members who have already retired and are currently receiving benefits. In all cases, the Accrued Liability only reflects benefits that are paid for by the Town, taking into account any implicit rate subsidies.

	CPMA	Police	Total
Current active members			
Employees under age 65	\$0	\$686,000	\$686,000
Employees over age 65	59,000	574,000	633,000
Dependents under age 65	9,000	614,000	623,000
Dependents over age 65	<u>44,000</u>	<u>407,000</u>	<u>451,000</u>
Total	112,000	2,281,000	2,393,000
Current retired members			
Employees under age 65	0	645,000	645,000
Employees over age 65	314,000	778,000	1,092,000
Dependents under age 65	0	502,000	502,000
Dependents over age 65	<u>78,000</u>	<u>651,000</u>	<u>729,000</u>
Total	392,000	2,576,000	2,968,000
Total Accrued Liability	504,000	4,857,000	5,361,000



TOWN OF CHARLESTOWN
OTHER POST-EMPLOYMENT BENEFITS PROGRAM

ANNUAL REQUIRED CONTRIBUTION

The Annual Required Contribution (ARC) for the OPEB program consists of two pieces: a **Normal Cost** (the cost of benefits earned each year should be accrued in that year) plus a **Past Service Cost** (a catch-up accrual to amortize the Unfunded Accrued Liability). The amortization period is 30 years starting FY 2009 for CPMA and 20 years starting FY 2009 for Police. The amortization method produces annual payments that will increase over time as payroll grows. On this basis, the ARC is determined as follows:

	CPMA	Police	Total
Accrued Liability	\$504,000	\$4,857,000	\$5,361,000
Assets	236,000	1,558,000	1,794,000
Unfunded Accrued Liability	268,000	3,299,000	3,567,000
Amortization Period	25	15	
Payroll Growth Rate	3.00%	3.00%	3.00%
Past Service Cost	17,000	292,000	309,000
Normal Cost	2,000	160,000	162,000
Interest	1,000	34,000	35,000
ARC for FY 2014	20,000	486,000	506,000
Expected Benefit Payouts	35,000	157,000	192,000
Net Budget Impact	(15,000)	329,000	314,000

The ARC is assumed to be paid at the beginning of the Fiscal Year.

Internal Revenue Service

Department of the Treasury
Washington, DC 20224

Index Number: 105.00-00, 106.00-00,
115.00-00

Third Party Communication: None
Date of Communication: Not Applicable

Mr. John M. Day, Treasurer
Town of Bristol
Town Hall
10 Court Street
Bristol, R.I.
02809-2208

Person To Contact:
Shoshanna Tanner, ID No. 50-21119
Telephone Number:
(202) 622-6080
Refer Reply To:
CC:TEGE:EB:HW
PLR-103900-07
Date: MAR 22 2007

 COPY

LEGEND:

Taxpayer = Town of Bristol, R.I.
E.I.N 05-6000040

Plan = Post Retirement Benefits Plan

Fund = Post Retirement Benefits Trust

Dear Mr. Day:

This is in reply to your letter of October 20, 2005, in which you request various rulings on behalf of the Taxpayer with respect to its Plan and Fund.

You represent that the Taxpayer established the Fund in accordance with a municipal ordinance to provide post retirement medical benefits for its employees under the Plan. The Fund is an irrevocable trust created by a trust agreement. Any funds deposited in the Fund are separate and apart from the general revenues of the Taxpayer. Funds are deposited into the Fund by the Taxpayer. They are used to meet the Taxpayer's obligation to pay the health insurance premiums needed to provide medical benefits for its employees after retirement. The Fund is administered by a board of five trustees. Three of the trustees are selected by the Taxpayer's governing body, one is selected by the Taxpayer administrator and one is the Taxpayer treasurer. The trustees are responsible for the general administration, investment and maintenance of the Fund and for the payment of insurance premiums in amounts sufficient to satisfy the Taxpayer's obligation for post retirement medical benefits. Any decisions not within the scope of the trustees are referred to the Taxpayer's governing body.

The income of the Fund is derived from payments made by the Taxpayer and from investment income. Expenditures are used solely to pay for post retirement health insurance premiums provided pursuant to the Plan. The trust agreement under which the Fund was established may be amended but not revoked. Under no condition may an amendment result in the return to the Taxpayer of any portion of the Fund or of the income earned by the Fund, or result in the distribution of the Fund or its income for the benefit of anyone other than covered retirees for post retirement medical benefits. In the event the Plan is terminated, the Fund's remaining assets must be used to fulfill the Taxpayer's obligation to provide medical benefits for retirees covered under the Plan.

You represent that the Fund will be used solely to pre-fund its retiree health insurance obligations under the Plan. Retirees of the Taxpayer who retire with 20 years of service are eligible to receive health insurance benefits from the Plan. Under the Plan, retirees will be provided with medical coverage through an insurance company. No person other than eligible retirees of the Taxpayer, their spouses or dependents may receive benefits from the Plan. Retirees will receive health insurance benefits from the Plan until the first of the following occurs: death, eligibility for Medicare or other federally subsidized programs, or the availability of equivalent medical insurance from another employer of the retiree or the retiree's spouse. You represent that the Plan will be used solely for the payment of health insurance premiums on behalf of eligible retirees of the Taxpayer, their spouses and dependents and not for life insurance or any other benefit now or in the future. Eligible retirees will not receive any amounts in cash or any other taxable or nontaxable benefits. Amounts in the Plan will not be used to reimburse unreimbursed medical expenses.

Employees will be required to contribute a portion of the insurance premiums paid by the Taxpayer to the Fund based on a percentage of the employees' wages. The amount of the contribution, if not otherwise determined by an applicable collective bargaining agreement, will equal up to one-half of the actuarially deferred cost of the post-retirement health insurance coverage. You represent that employee contributions to the Fund are mandatory for all employees who will derive a benefit from the Plan and are a condition of employees' continued employment with the Taxpayer. Contributions will not be subject to any election by the employee.

Issue One

Section 115(1) of the Internal Revenue Code ("the Code") provides that gross income does not include income derived from any public utility or the exercise of any essential government function and accruing to a state or any political subdivision thereof.

In Rev. Rul. 77-261, 1977-2 C.B. 45, income from an investment fund, established under a written declaration of trust by a state, for the temporary investment of cash balances of the state and its participating political subdivisions, was excludable from gross income for federal income tax purposes under § 115(1). The ruling indicated that

the statutory exclusion was intended to extend not to the income of a state or municipality resulting from its own participation in activities, but rather to the income of a corporation or other entity engaged in the operation of a public utilities or the performance of some governmental function that accrued to either a state or municipality. The ruling points out that it may be assumed that Congress did not desire in any way to restrict a state's participation in enterprises that might be useful in carrying out projects that are desirable from the standpoint of a state government and which are within the ambit of a sovereign to properly conduct. In addition, pursuant to section 6012(a)(2) and the underlying regulations, the investment fund, being classified as a corporation that is subject to taxation under subtitle A of the Code, was required to file a federal income tax return each year.

In Rev. Rul. 90-74, 1990-2 C.B. 34, the Service determined that the income of an organization formed, funded, and operated by political subdivisions to pool various risks (casualty, public liability, workers' compensation, and employees' health) is excludable from gross income under § 115 of the Code. In Rev. Rul. 90-74, private interests neither materially participate in the organization nor benefit more than incidentally from the organization.

The Fund provides health benefits to retired employees of Taxpayer, a political subdivision of State. Providing health benefits to current and former employees constitutes the performance of an essential government function. Based upon Rev. Rul. 90-74 and Rev. Rul. 77-261, Fund performs an essential governmental function within the meaning of § 115(1) of the Code.

The income of the Fund accrues to the Taxpayer. The Taxpayer is the sole participating employer in the Plan. No private interests participate in or benefit from the operation of the Fund. Any distribution of remaining funds in the Fund to participating retirees upon the dissolution of the Fund satisfies an obligation the Taxpayer has assumed with respect to providing health benefits to its employees. The benefit to the participating employees is incidental to the public benefit. See Rev. Rul. 90-74.

Issue Two

Section 61(a)(1) of the Code and §1.61-21(a)(3) of the Income Tax Regulations provide that, except as otherwise provided in Subtitle A, gross income includes compensation for services, including fees, commissions, fringe benefits, and similar items.

Section 106(a) of the Code provides that the gross income of an employee does not include employer-provided coverage under an accident or health plan.

Section 1.106-1 of the regulations states that the gross income of an employee does not include contributions which his employer makes to an accident or health plan for compensation (through insurance or otherwise) to the employee for personal injuries or sickness incurred by the employee, the employee's spouse, or the employee's

dependents as defined in §152 of the Code. The employer may contribute to an accident or health plan either by paying the premium on a policy of accident or health insurance covering one or more of the employees, or by contributing to a separate trust or Plan which provides accident or health benefits directly or through insurance to one or more of the employees. However, if the insurance policy, trust or fund provides other benefits in addition to accident or health, section 106 applies only to the portion of the contributions allocable to accident or health benefits.

Section 3121(a)(2) provides that the term "wages" does not include any payment (including any amount paid by an employer for insurance) made to, or on behalf of an employee or any of his dependents on account of medical or hospitalization expenses.

Coverage provided under an accident and health plan to former employees and their spouses and dependents is excludable from gross income under §106. See, Rev. Rul. 62-199, 1962-2 C.B. 38; Rev. Rul. 82-196, 1982-2 C.B. 53.

Based on the information submitted and the representations made, we conclude as follows:

(1) Income of the Fund is derived from the exercise of an essential governmental function and will accrue to a state or a political subdivision thereof for purposes of § 115(1). Accordingly, Fund's income is excludable from gross income under § 115(1) of the Code.

(2) Amounts paid to the Fund and amounts paid from the Fund which are used solely to pay for health insurance premiums of retired employees and their spouses and dependents as defined in § 152 (determined without regard to §152(b)(1), (b)(2), and (d)(1)(B)) are excludable from gross income under §106 and do not constitute "wages" under § 3121(a)(2) of the Code.

No opinion is expressed concerning the Federal tax consequences of the Fund or Plan under any other provision of the Code other than those specifically stated herein.

This ruling is directed only to the Taxpayer requesting it. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent.

In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to your authorized representative.

Sincerely,

A handwritten signature in black ink, appearing to read "Harry Beker", written over a horizontal line.

Harry Beker
Chief, Health and Welfare Branch
Office of Division Counsel/
Associate Chief Counsel
(Tax Exempt & Government Entities)

cc: Frederick P. McClure, Esq.
C/O Hinckley, Allen & Snyder LLP
1500 Fleet Center
Providence, RI 02903

**TOWN OF CHARLESTOWN
RESOLUTION AUTHORIZING AN INVESTMENT POLICY
OTHER POST EMPLOYMENT BENEFITS TRUST (OPEB)**

WHEREAS, the Town, in consultation with its advisors, determined that it was in the Town's best financial interest to establish an irrevocable trust under Section 115 of the Internal Revenue Code of 1986, as amended (OPEB Trust), into which the Town will make contributions from time to time solely to fund its liability for OPEBs; and

WHEREAS, the Town Administrator and the Town Treasurer had recommend that the Declaration of Trust presented to the Town Council be adopted in the form presented, and that RBS Citizens, N.A. be appointed as corporate trustee; and

WHEREAS, on May 11, 2009, the Town Council of the Town of Charlestown approved the Declaration of Trust for the funding of post retirement benefits; and

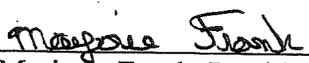
WHEREAS, Article 4.1 of the OPEB Trust states that any action related to the administration of this Trust required or permitted to be taken by the Municipality shall be by resolution adopted by the Town Council upon the recommendation of the Town Administrator; and

WHEREAS, in accordance with Article 4.1 of the OPEB Trust, the Acting Co-Town Administrators have recommended that an investment policy be implemented.

NOW THEREFORE BE IT RESOLVED that the Town Council of the Town of Charlestown hereby moves that Councilor Richard H. Hosp be authorized to prepare an Investment Policy consistent with the needs of the Trust; and

BE IT FURTHER RESOLVED that this Investment Policy be presented to the Town Council for possible adoption at their July 13, 2009 regularly scheduled Town Council meeting.

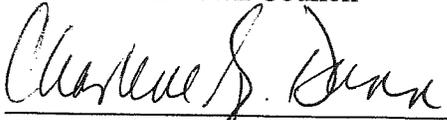
Taken under our hands this 8th day of June, 2009.



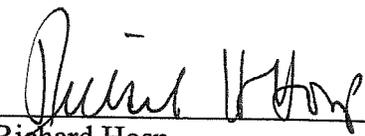
Marjorie Frank, President
Charlestown Town Council



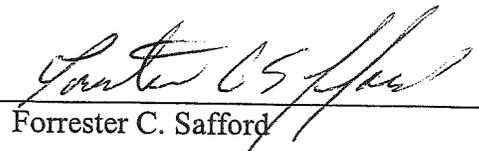
Gregory Avedisian, Vice President



Charlene Q. Durfn



Richard Hosp



Forrester C. Safford

COPY

Town of Charlestown
Other Post Employment Benefits (OPEB) Trust
Investment Policy - July 13, 2009

I. Establishing Documents

Rhode Island State Law - Section 45-21-65 (Attachment A)

Town of Charlestown Resolution Establishing a Municipal Post Retirement Trust and Naming RBS Citizens Bank, N.A. as Trustee (Attachment B)

Agreement and Declaration of Trust, Town of Charlestown, Post Retirement Benefits Plan (Attachment C)

Town of Charlestown Resolution Authorizing an Investment Policy to be prepared (Attachment D)

II. Establishment of Investment Policy

Article Seven of the "Agreement and Declaration of Trust, Town of Charlestown, Post Retirement Benefits Plan (hereinafter referred to as the "Trust Agreement") establishes the PURPOSE, INVESTMENT OBJECTIVES, and INVESTMENT POLICY of the Trust. Article 7.3 states that "the Trustee shall comply with the Investment Policy of the Municipality, as the same may be modified from time to time."

Article 4.1 of the Trust Agreement states that "Any action related to the administration of this Trust required or permitted to be taken by the Municipality shall be by resolution adopted by the Town Council upon recommendation of the Town Administrator." Therefore, by resolution adopted by the Town Council upon recommendation of the Town Administrator this Investment Policy is established.

This initial Investment Policy was prepared Town Council Member Richard Hosp with the assistance of the Town Tax Assessor, Ken Swain, and the Acting Town Treasurer, Jo Anne Santos. It has been reviewed by the Town Solicitor, Peter Ruggiero and the Town Administrator, William Dilibero. Changes have been made based on their comments. It has also been reviewed by the Trustee's representative, Daniel Notartomaso, Senior Vice President, Citizens Bank, and his comments and suggestions have been incorporated.

The Town Council may wish to establish an Investment Review Committee. The establishment of an Investment Review Committee would be accomplished separately through adoption of a Town Ordinance.

III. Role of the Town Administrator

It is the responsibility of the Town Administrator to keep the Town Council informed of the status of the OPEB Trust quarterly and anytime changes to the Investment Policy are recommended.

The Town Administrator is responsible for the supervision of the preparation of the Town's annual budget (see Town Charter). In keeping with this role, the Town Administrator is responsible for recommending annual additions to the OPEB Trust fund that are consistent with the most recent actuarial study recommendations, to the degree possible within the limits of prudent fiscal Town management.

The Town Administrator shall ensure that actuarial update studies are made every three years, in the year following employment contract ratification. These updates will be provided to the Town Council, the Investment Review Committee (if one is established) and the Trustee to assist in prudent management of the Trust.

IV. Role of the Trustee

The role of the Trustee is defined by the "Agreement and Declaration of Trust, Town of Charlestown, Post Retirement Benefits Plan" (attachment C) as may be amended from time to time in accordance with Article 4.1. This "Investment Policy" governs the administration of the Trust when adopted by resolution by the Town Council upon recommendation of the Town Administrator.

The Trustee will manage the Trust on a discretionary basis within the guidelines set by the "Investment Policy Statement and Implementation Strategy." The Trustee shall meet with the Town Administrator and the Investment Review Committee (if one is established) if in the Trustee's judgment the Investment Policy Statement requires revision. The Town Administrator will put any recommended Investment Policy changes on the Town Council's agenda for possible revision by resolution. The Trustee will provide the Town Administrator with monthly statements of the Trust activity and values.

V. Investment Policy Statement and Implementation Strategy

A. Overall Investment Objective

The overall investment objective is to fully fund Charlestown's unfunded OPEB liability as soon as possible through a combination of annual contributions by the Town to the Trust and by growth of the Trust through investment of Trust funds held. Committed or voter approved budgeted funds for the Trust by fiscal year are as follows:

FY 2006/2007	\$50,000
FY 2007/2008	\$50,000
FY 2008/2009	\$395,000
FY 2009/2010	<u>\$300,000</u>
Total Voter Approved	\$795,000

It is important to understand that "full funding" of the OPEB Trust is a moving target that changes based on the actuarial assumptions used, the Town's annual contribution, and the rate of return earned by the invested Trust funds.

Based on the following assumptions...

1. the actuarial assumptions made in the 2006 Milliman Study and,
2. that the \$795,000 is put to work in the Trust starting in July, 2009,
3. that the Town budgets a minimum of \$250,000 annually for OPEB,
4. that the Trust investments average annual 7.5% returns over the next 7 years,
5. that the Town continues to "cash flow" all annual health care costs for the next seven years...

it is possible that the OPEB Trust will be fully funded in seven years (FY 2015-2106, see attachment E).

Thus, the overall investment objective currently for the Trust is to achieve average annual returns of 7.5% or more. This objective and the "fully funded" time horizon may be modified as the Actuarial (Milliman) Study is updated.

B. Risk Tolerance and Time Horizon

Since funds from the Trust are not planned to be withdrawn for any purpose for at least five to seven years, short term risks to capital are not as important as longer term growth goals. Trust expenses will be planned in and paid out of the Town budget for "Professional Services (account # 9400)."

C. Liquidity

Liquidity is not an issue during the first five to seven years. Liquidity only becomes an issue after the Trust is fully funded and begins to pay out for post employment health care coverage.

D. Tax Considerations

This Trust is exempt from taxation under Section 115 of the Internal Revenue Code of 1986 (see Attachment C, Article 3.7).

E. Legal Constraints

Adherence to the terms of the Prudent Investor Rule.

F. Implementation Strategy

As of the end of FY 2009 (June 30, 2009), the Town transferred \$100,000 from the Health Care Reserve Fund (995-9990) to the OPEB Trust. Upon adoption of this Investment Policy document, the Town will continue to transfer funds from the Health Care Reserve Fund to the Trust so that the Trustee is able to invest the initial funds set aside (approximately \$795,000) over the course of the July, 2009 through October, 2009 period unless extreme market conditions or a change in investment strategy require a change in time horizon.

The initial allocation by asset segment follows Citizens Bank "Recommended Investment Allocation dated June 10, 2009 (and as periodically revised)" for "Growth and Income" (Attachment F.)

<u>Asset Allocation</u>	<u>Range</u>	<u>"Growth/Income" Target %</u>
Cash	0 - 10	5
Fixed Income	30 - 50	30
Equities	50 - 70	60
Inflation Hedge	1 - 10	5
Alternative	1 - 10	0
		100

1. Fixed Income Allocation

1a. Fixed Income investing is problematic at present. Besides the normal possibility of default, the likelihood that rates will go up significantly (perhaps dramatically) over the next five to seven years entails major risk to principal unless the instrument is held to maturity. It is likely that inflation will return to at least "normal" levels of about three percent per year, with the very real possibility of much higher inflation rates, reducing real return significantly.

1b. Fixed Income investments shall be limited to "A" rated securities or higher (Standard & Poor's or Moody's.) In the event of a downgrade it will be at the discretion of the Investment Manager to determine whether to hold or sell.

1c. Fixed Income investments shall be limited to securities with a maximum maturity of 10 years and a maximum duration of 7 years. A ladder approach rather than active management of the fixed income portfolio is envisioned.

1d. TIPS, TIPS funds or TIPS ETF's may be purchased as part of the Fixed Income portfolio.

2. Equity Allocation

2a. The initial equity allocation is Citizen's Bank "Recommended Investment Allocation dated June 10, 2009 (and as periodically revised)" for "Growth/Income."

<u>Equity Allocation</u>	<u>Range</u>	<u>"Growth/Income" Target %</u>
Large Cap	40 - 100	65
Mid Cap	0 - 20	10
Small Cap	0 - 10	10
International (Large Cap)	0 - 30	10
Emerging Markets	0 - 5	5

2b. For individual companies, holdings must represent companies meeting a minimum capitalization requirement of \$500 million with high market liquidity. Investing in private placements, letter stock and options are prohibited, as are short sales, margin transactions or other specialized investment activities. Initially, no individual stock may

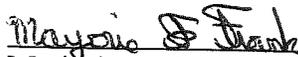
exceed five percent (5%) of the total portfolio. This maximum percentage should be decreased as the Trust grows.

3. Rebalancing the Portfolio

Once the initial funds are fully invested and the planned asset allocations are met, it is expected that the Trustee will rebalance the portfolio should the asset allocation vary from plan by plus or minus five percentage points in any investment category. The timing of the rebalancing is at the discretion of the Trustee but the need to rebalance should be examined not less than quarterly. As stated in section "IV. Role of the Trustee," the Trustee may recommend changes in any part of this Investment Policy Statement, including the asset allocation, should market conditions warrant.

This OPEB Investment Policy is adopted by resolution of the Charlestown Town Council on July 13, 2009.

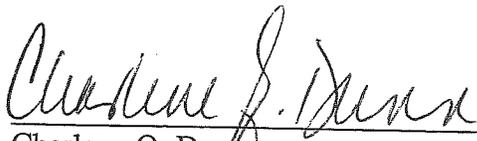
Taken under our hands this 13th day of July 13, 2009.



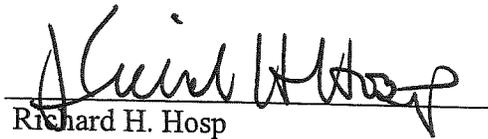
Marjorie F. Frank, President



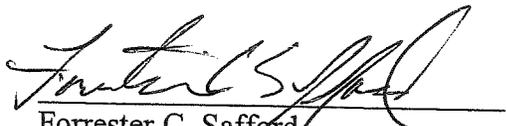
Gregory J. Avedisian, Vice President



Charlene Q. Dunn



Richard H. Hosp



Forrester C. Safford



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

January 15, 2014

VIA EMAIL

Mr. Thomas R. Hoover, ICMA CM
Town Manager
Town of Coventry
1670 Flat River Road
Coventry, RI 02846

Dear Mr. Hoover:

We recognize the funding improvement plans which were approved by the Town Council and submitted by the Town relating to municipal and police employees. Thank you for your efforts to provide sustainable pension security for those employees and taxpayers of Coventry.

Furthermore, I am encouraged that a dialogue has commenced, per our request, with the Town of Coventry, Coventry Public Schools, Coventry Teachers Association School Related Personnel (SRP) Pension Board Trustees and SRP Union Leadership. I am hopeful that these conversations will lead to a resolution in the future.

However, at this point, the Town of Coventry has not yet qualified for Article 11 municipal incentive aid for cities and towns in FY 2014. While a funding improvement plan was submitted for the Coventry School Employees' Plan, this plan has not been approved by the plan sponsor and local governing body as required pursuant to RIGL§ 45-13.2-6.

Section 45-13.2-6(d) provides that in any fiscal year that a municipality does not receive an appropriation under the chapter, the amount that would have been allocated to the municipality will be distributed in the month of May among the other eligible municipalities for that fiscal year, on the basis of the most recent population estimate for each municipality as a share of the total state population reported by the U.S. Department of Commerce, Bureau of the Census. Therefore, the \$166,126 the Town would have been eligible for will be distributed to the other eligible municipalities, unless a resolution is reached before that time. Should the General Assembly decide to appropriate funds for the municipal incentive aid in FY 2015, the Town of Coventry could qualify again to receive those funds if the Town meets the respective eligibility criteria.

In closing, the Department of Revenue offers its assistance if you believe it would help reaching a resolution to the dispute over responsibility for the plan. Also, as we discussed, if it appears that a resolution is close, but not yet executed, the Department of Revenue would support a unified effort to seek approval from the General Assembly to place the \$166,126 in escrow pending final approval of the plan.

Sincerely,



Rosemary Booth Gallogly
Director of Revenue

cc: Dr. Michael Almeida, Superintendent of Coventry Public Schools
Ms. Katherine Patenaude, Chairperson of Coventry School Committee
Mr. Gary Cote, President of Coventry Town Council
Mr. Robert Thibault, Finance Director of the Town of Coventry
Ms. Robin Pelletier, Director of Administration & Finance for Coventry Schools
Mr. Gary Moore, Chairperson of the Coventry School Plan Trustee Board
Members of the Locally-administered Pension & OPEB Study Commission

Thomas R. Hoover
Town Manager



TOWN OF COVENTRY
1670 Flat River Road, Coventry, RI 02816
Tel. (401) 822-9185 Fax (401) 822-9139

January 14, 2014

Rosemary Booth-Gallogly
RI Department of Revenue
One Capitol Hill
Providence, RI 02908

Re: Coventry Teachers Alliance School Related Personnel (CTASRP) Pension Plan
and State Incentive Aid

Dear Ms. Booth-Gallogly:

This will confirm our conference call on Friday, January 10, 2014 with regards to the subject matter. Besides you and me, the participants included Chief of the Municipal Finance Office Suzanne Greschner, Coventry Town Council President Gary Cote and Coventry Finance Director Robert Thibeault. You confirmed in this call that the Governor's budget will reflect that the Town of Coventry will not receive any incentive aid as described in RIGL §45-13, as attached in FY 2015. This amount to be withheld from the Town of Coventry is \$166,126. You have indicated that the reason for this withholding is that the Town of Coventry will not take responsibility for the Coventry Teacher's Alliance School Related Personnel Pension Plan's (CTASRP) unfunded liability of approximately \$24,000,000.

As indicated to the local administered Pension Plan Study Commission and the Department of Revenue on several occasions, the CTASRP Pension Plan was never administered by the Town of Coventry. From the time that we submitted our Financial Improvement Plans (FIP's) that were approved by our Town Council for our non-uniformed Municipal Employee and our Police Pension Plans in November, 2012, we have indicated that the Town of Coventry has no responsibility for the CTASRP Pension Plan. Your office has continuously insisted that this responsibility exists, but you have never produced any legal substantiation for that position. Moreover, you have consistently ignored the fact that plain and unambiguous language in the pension documents, including without limitation, the conspicuous "no guaranty" provision which states: ***"Neither the Administrator, the Employer nor the Union in any way guarantees the Plan funds from loss or depreciation, nor guarantees any payment to any person. The liability of the Employer, the Union or the Administrator to make payment under the Plan will be limited to the assets held under the Plan which are available for that purpose"***. Of course, it is plainly obvious and uncontroverted that the Town of Coventry is neither the Employer, Plan Administrator, or Union. The Town of Coventry School Department has consistently paid its share of the CTASRP Pension Plan from its inception in

1977 in accordance with the collective bargaining agreements between the School Department and the CTASRP employees. You now suggest that the taxpayers of the Town of Coventry should additionally be responsible for a pension plan deficit that has been created and administered by parties other than the Town of Coventry. The increased amount of annual required contribution to correct this unfunded liability is absolutely not something that the taxpayers of the Town of Coventry should have to bear, nor can they afford to. It is a gargantuan debt and most assuredly not of the making of these taxpayers. To believe otherwise is unconscionable and an affront to the hard working citizenry of our town who are already struggling with the pernicious and lingering aftereffects of the Great Recession.

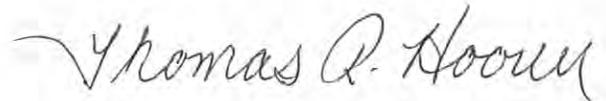
The Coventry Town Council, Coventry School Committee and CTASRP Pension Plan Trustees met with the Locally Administered Pension Plans Study Commission, which you chair, on May 30, 2013 wherein the Town Council and School Committee reiterated their position of not being responsible for the CTASRP Pension Plan. At that meeting, Study Commission member Antonio Pires suggested that the Town, School Committee and CTASRP Pension Plan Trustees try to work together to find a solution to the deficit position of the CTASRP Pension Plan. This can be confirmed by reviewing the minutes of the May 30, 2013 meeting, a copy of which we would ask that you provide to us at this time. We have taken the Commission's request to heart and the Town, School Committee and CTASRP Pension Plan Trustees have met to discuss this, beginning on August 7, 2013, again on October 2, 2013 and most recently on November 20, 2013. At the November 20, 2013 meeting we were also joined by the Coventry Teacher's Alliance President. The group is scheduled to meet again at the end of this month. For your office to now take the above stated action in the midst of us doing exactly what Member Pires (and others) asked us to do is extremely disconcerting, confusing and questionable. Be mindful, that this retaliatory tactic is coercive and designed to punish the Town for simply asserting a well-grounded legal posture, and discharging its fiduciary obligations to its taxpayers to protect them from a liability for which they bear no responsibility. After all, short of withholding funding, there are legal avenues, such as an action for declaratory and injunctive relief, which would permit our Superior Court to scrutinize all the relevant pension documentation and declare the respective rights and obligations, if any, of the union, the plan administrator, plan trustees, school committee and the Town. Yet rather than allow the legal process to ensue, or to take legal action of your own, you have opted to withhold funding, an aggravating tactic which only compounds the fiscal plight of the people of Coventry.

The Town of Coventry has consistently conformed to Rhode Island General Laws (RIGL) and particularly the Rhode Island Retirement Security Act of 2011. RIGL §45-13.2-5 clearly indicates that Municipal Incentive Aid is to be provided to those municipalities which comply with the requirements and provisions of this chapter of the law. In addition RIGL §45-13.2-6 indicates that Municipal Incentive Aid shall be distributed based upon the most recent population estimate for each municipality as a share of the total population reported by the U.S. Department of Commerce, Bureau of Census. Such payments shall be made to eligible communities in March of 2014, 2015, and 2016. Paragraph b 2 of this section states that a municipality shall be eligible for this incentive aid if they have submitted proper financial improvement plans (FTP's) for those locally administered pension plans for which they are responsible. The Town of Coventry has clearly met this obligation.

It is inappropriate to single out the Town of Coventry in this matter when all of the other municipalities in the State of Rhode Island are otherwise receiving this Municipal Incentive Aid.

We believe this action by the State of Rhode Island, Department of Revenue to be illegal and nothing short of extortionate. It is strongly requested by the Town of Coventry that the Governor not single out the Town of Coventry in the disbursement of this Municipal Incentive Aid in his 2015 budget. I vigorously request that you revoke this ill-considered punishment. Notwithstanding the strength of my views stated herein, I hope that we will continue dialogue without doing collateral damage to the innocent people of Coventry.

Sincerely,



Thomas R. Hoover
Town Manager

cc: Governor Lincoln Chafee, 82 Smith Street, Providence, RI 02903
Suzanne Greschner, RI Dept of Revenue, One Capitol Hill, Providence, RI 02908
Chief Municipal Finance Office, Division of Municipal Finance, One Capitol Hill, 1st
floor, Providence, RI 02908
Gary Cote, Coventry Town Council President
Kerry McGee, Coventry Town Council Vice-President
Councilman Gregory Laboissonniere
Councilman Ted Jendzejec
Councilwoman Karen Carlson
Senator Nicholas Kettle
Senator Leonidas Raptakis
Representative Jared Nunes
Representative Patricia Morgan
Representative Patricia Serpa
Representative Scott Guthrie
Representative Lisa Tomasso
Representative Michael Chippendale
Ann Dickson, Coventry School Committee
Katherine Patenaude, Coventry School Committee
Frank Hyde, Coventry School Committee
David Florio, Coventry School Committee
Judith Liner, Coventry School Committee
Dr. Michael Almeida, Coventry Superintendent of Schools
Robin Pelletier, Director of Administration Finance, Coventry Public Schools
Robert Thibeault, Coventry Director of Finance
Vincent F. Ragosta, Jr., Esq.
Jean Bouchard
Paul Doughty
Mayor Allan Fung
Dennis Hoyle, RI Auditor General
J. Michael Lenihan

J. Michael Lenihan
Richard Licht, RI Director of Administration
Antonio Pires, Pawtucket Director of Administration
Mayor Joseph Polisena
Gina Raimondo, RI General Treasurer
Sgt. Steven St. Pierre
John Simmons
Mayor Angel Taveras
Dan Beardsley, RI League of Cities & Towns

1 Municipal Incentive Aid program, shall be to encourage municipalities to improve the
2 sustainability of their retirement plans and to reduce unfunded liabilities thereunder, by providing
3 additional state aid to those municipalities that comply with the requirements and provisions of
4 this chapter.

5 **45-13.2-6. Distributions.** -- (a) Municipal Incentive Aid described in this chapter shall be
6 distributed to eligible municipalities on the basis of the most recent population estimate for each
7 municipality as a share of the total state population reported by the U.S. Department of
8 Commerce, Bureau of the Census. Such payments shall be made to eligible communities in
9 March 2014, March 2015, and March 2016.

10 (b) For fiscal year 2014, municipalities shall be eligible to receive aid under this chapter
11 if: (1) the municipality has no locally-administered pension; or (2) the municipality submitted to
12 the state's department of revenue a Funding Improvement Plan ("FIP"), pursuant to chapter 45-
13 65, for every locally-administered pension plan in that municipality, and each FIP had been
14 approved by the plan sponsor and the local governing body no later than May 1, 2013; or (3)
15 there existed a locally-administered pension plan(s) in that municipality, but no FIP was required
16 pursuant to chapter 45-65.

17 (c) For fiscal years 2015 and 2016, municipalities shall be eligible to receive aid under
18 this chapter, if: (1) all locally-administered pension plans are in the state- administered Municipal
19 Employee Retirement System ("MERS"); or (2) the municipality has transitioned all locally-
20 administered pension plans into MERS by June 30, 2014; or (3) the municipality had submitted to
21 the state's department of revenue a FIP, pursuant to chapter 45-65, for every locally-administered
22 pension plan and a submitted FIP meets the guidelines of the Study Commission on Locally-
23 Administered Pension Plans or otherwise applicable guidelines or regulations; the municipality
24 has implemented the original recommended FIP or an amended FIP pursuant to chapter 45-65;
25 and the FIPs are approved by the plan sponsor and the local governing body by June 1, 2014; or
26 (4) if there existed a locally-administered pension plan in that municipality, but no FIP was
27 required, pursuant to chapter 45-65, and the municipality is funding one hundred percent (100%)
28 of its Annually Required Contribution (ARC).

29 (d) In any fiscal year that a municipality does not receive an appropriation under this
30 chapter, the amount that would have been allocated to the municipality will be distributed among
31 the other eligible municipalities for that fiscal year, on the basis of the most recent population
32 estimate for each municipality as a share of the total state population reported by the U.S.
33 Department of Commerce, Bureau of the Census.

34 SECTION 2. This article shall take effect upon passage.

