

State Involvement in Enhancing Fiscal Stability of Rhode Island Municipalities Presented to RIGFOA

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Presentation Overview

- Fiscal Stability Act
- Statutory Lien for Bonds
- Retirement Security Act of 2011
- Local Pension and OPEB Study Commission
- Municipal Incentive Aid
- Next Steps

Reasons for Creation of Fiscal Stability Act (FSA)

- Concern over contagion effect on other municipalities' market access and/or cost
- State has a compelling interest in the fiscal health of municipalities
- Underfunded pensions were a widespread problem
- Other post employment benefits at local level also have large unfunded liability
- Rating agencies and the municipal credit markets look to the state to exercise strength and control in these situations

An Act Providing for the Financial Stability of Cities and Towns - Purpose

- To provide a mechanism for the State to work with cities and towns undergoing financial distress that threatens the fiscal well-being, public safety and welfare of such cities and towns, or other cities and towns or the state, and
- To provide stability to the municipal credit markets for Rhode Island and its cities and towns through a predictable, stable mechanism for addressing cities and towns in financial distress

The Fiscal Stability Act

- Creates three levels of State oversight and control
- Prohibits municipalities from filing for judicial receivership and clarifies that the Superior Court has no jurisdiction to hear such matters

§ 45-9-3 Fiscal Overseer (Level I)

- By request of the municipality (jointly from chief elected official and city or town council), or
- The Director of revenue may appoint a fiscal overseer if the director finds, in his or her sole discretion, if criteria as specified in the statute apply

§ 45-9-5 Budget Commission (Level II)

- May be established if the fiscal overseer, in consultation with the auditor general, makes certain findings, as defined in the statute
- By request of municipality (jointly from chief elected official and city or town council)

§ 45-9-7 Receiver (Level III)

- Director of revenue may appoint a receiver if budget commission recommends appointment of receiver after concluding that its powers are insufficient to restore fiscal stability to the city or town
- Director of revenue, in consultation with the auditor general, may skip fiscal overseer and budget commission by appointing a receiver in a fiscal emergency

§ 45-9-10 **Appointment of administration and finance officer/advisor upon abolition of fiscal overseer, budget commission or receiver**

- Municipality exiting state oversight must appoint an administration and finance officer for a period of 5 years
- Responsibilities listed in statute
- Costs shared between municipality and state

Current Application of FSA


- Central Falls has Administration and Finance Officer
- East Providence has Finance Advisor
- City of Woonsocket has a Budget Commission since June 2012
- Informal involvement with other communities

§ 45-12-32 Inability to pay interest on indebtedness

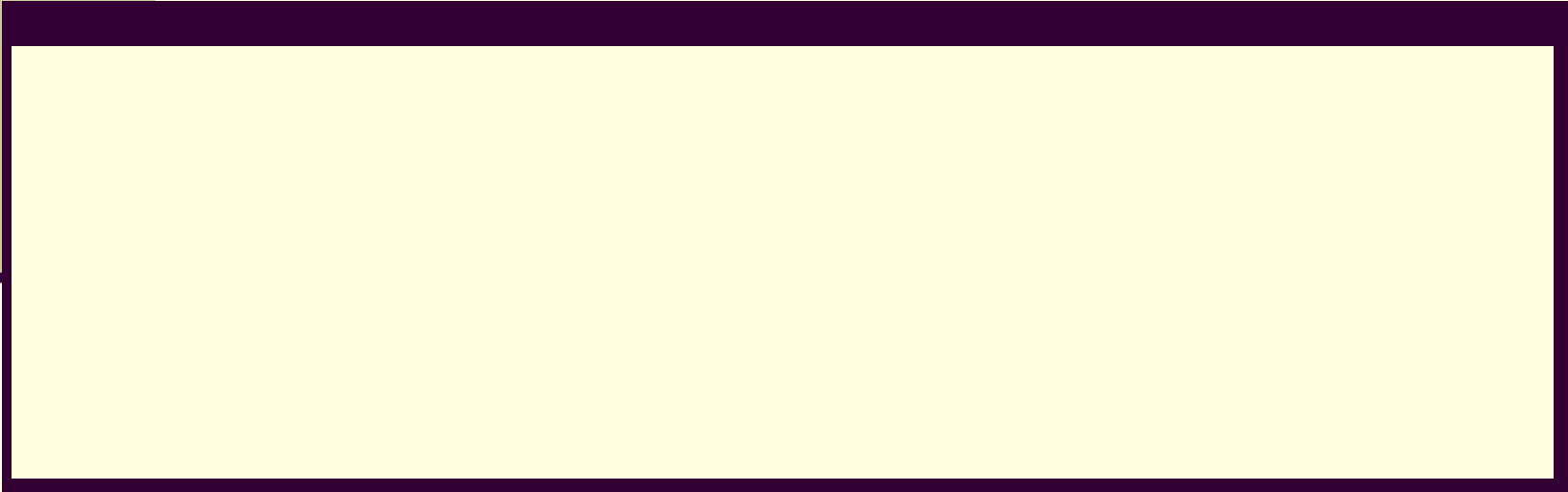
- Creates a mechanism to enhance the creditworthiness of cities and towns in financial stress by providing for a state aid intercept mechanism to pay general obligation bonds and notes
- No state guarantee
- State will pay only from state aid otherwise payable to municipality (this applies to any city or town whether or not the city or town is under Chapter 45-9)

Amendment to Create Statutory Lien for Bonds

- The General Law amendment enacted in June 2011 gave a statutory lien to all bondholders.
- Special revenues and statutory liens are to be unaffected in Chapter 9.
- Under the law, cities and towns must pledge their ad valorem property tax and general fund revenues to payment on all GO bonds and notes.
- The measure is intended to minimize contagion, or a domino effect.



Locally-Administered Pension Plans in Rhode Island



Locally-administered Pension Plans

- Locally administered pension plans in Rhode Island have an unfunded accrued actuarial liability of \$2.4 billion
- Each plan stands on its own – funding ratios range from 15% to 108%
- Of the 34 local plans, 22 plans are currently in “critical status”
- Historically no state oversight

Retirement Security Act of 2011

- Complete initial experience study no later than April 1, 2012, and every 3 years thereafter
- Complete initial actuarial studies by April 1, 2012, annually thereafter
- Municipalities with plans below 60% funded (“critical”) were required to notify participants/beneficiaries of the plan, and others of the critical status no later than 30 business days following the certification
- Municipalities with plans in critical status are required to submit funding improvement plan to emerge from critical status

§45-64-8 - Study Commission

- “A study commission for locally administered plans shall be established to review existing legislation and pension plan administrative practices and to make recommendations for the improved security and funding of locally administered plans and other post-retirement benefit obligations of cities and towns...”

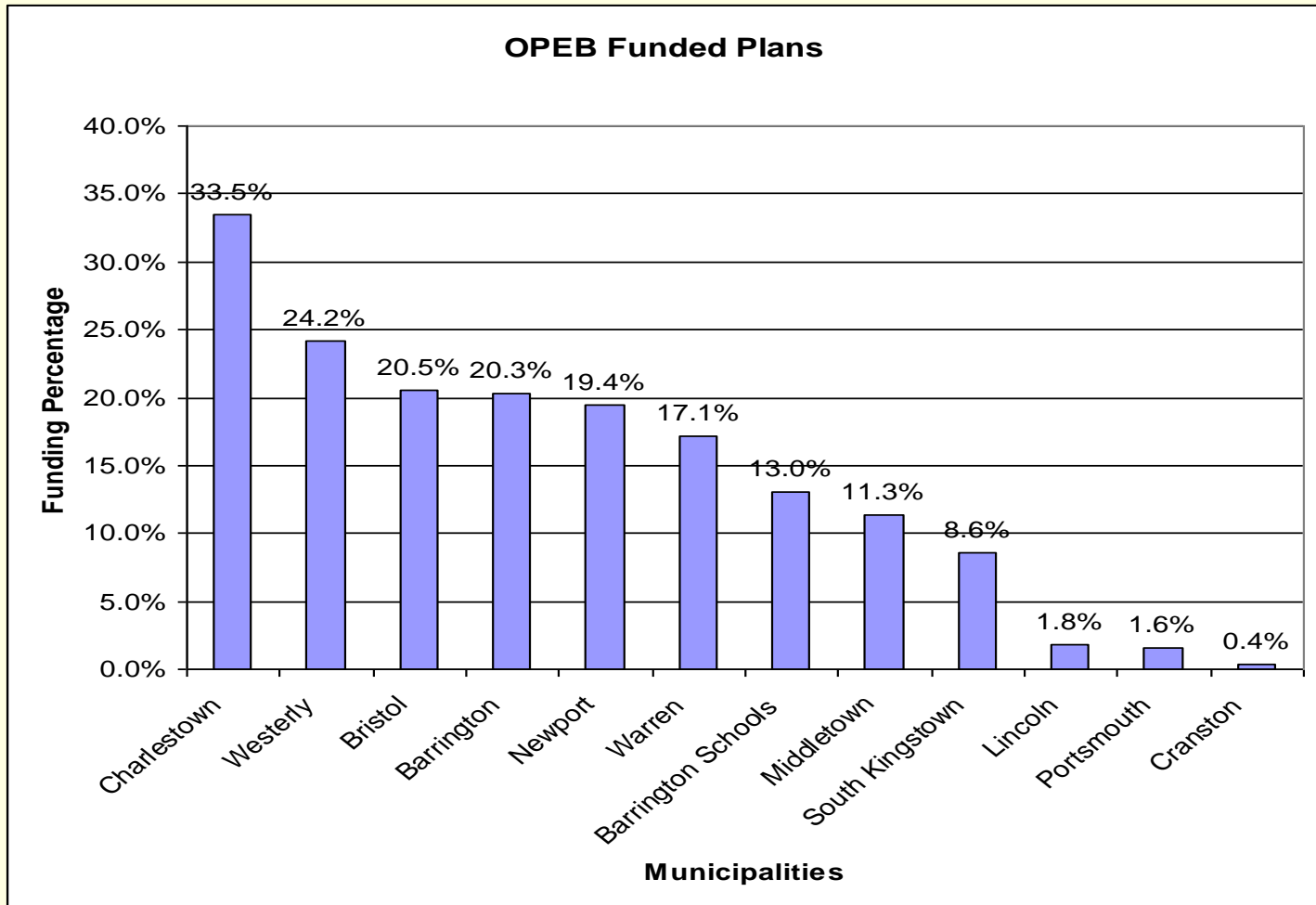
Funded Ratio of Local Pension Plans in Critical Status - Now and in 2033

Municipality	Pension Plan	2012 Funded Ratio	2033 Funded Ratio
Bristol	Police Pension Plan (prior to 3/22/98)	46.8%	108.6%
	Police Pension Plan	15.2%	63.7%
Coventry	School EE's Pension Plan	33.2%	66.6%
	Town's Municipal EE Retirement Plan	25.9%	67.6%
Cranston	Police & Fire EE's Pension Plan (prior to 7/1/95)	15.5%	66.3%
Cumberland	Town of Cumberland's Pension Plan	31.9%	102.8%
Johnston	Fire (prior to 7/1/99)	28.2%	69.2%
	Police	22.7%	
Narragansett	Police Plan (prior to 7/1/78)	0.0%	67.1%
	Town Plan	57.5%	89.7%

Funded Ratio of Local Pension Plans in Critical Status - Now and in 2033

Municipality	Pension Plan	2012 Funded Ratio	2033 Funded Ratio
Newport	Firemen's Pension Plan	34.7%	100.5%
	Policemen's Pension Plan	52.4%	100.4%
Pawtucket	Post 1974 Policemen & Firemen	34.3%	79.6%
Portsmouth	Employees of the Town of Portsmouth	53.3%	86.3%
Providence	ERS of the City of Providence	33.6%	60.0%
Scituate	Police Pension Plan	27.3%	78.4%
Smithfield	Police (prior to 7/1/99)	16.8%	100.0%
Tiverton	Policemen's Pension Plan	50.6%	76.7%
Warwick	Police Pension I and Fire Pension Plan	20.8%	74.6%
West Warwick	Town Plan	19.8%	69.7%
Woonsocket	Police (pre 7/1/80) and Fire (pre 7/1/85) Pension Plan	56.7%	100.0%

Status of OPEB



Municipal Incentive Aid - Purpose

- To encourage municipalities to improve sustainability of pension plans by reducing unfunded liabilities, and
- To encourage funding the plans in a fiscally responsible manner

Municipal Incentive Aid - Funding

- Eligible municipalities received funding for FY 2014 in March 2014
- Total amount of \$5 million appropriated for FY 2014, Governor proposed another \$5 million for FY 2015 for eligible municipalities

State Support

- Governor and General Assembly have been united on need to be proactive in addressing municipal fiscal stability, which has proven valuable with rating agencies
- No watering down of statute in subsequent sessions
- Moody's Commentary on credit impact of state oversight rated RI "strong" (Moody's, September 13, 2013)
- Lien statute has been mentioned positively by credit market
- Municipal Incentive Aid

Next Steps

- Pension Study Commission will discuss making recommendations to the General Assembly concerning locally administered pensions and OPEB
- Continued work on local level needed to have sustainable local pension plans and address unfunded OPEB liabilities



Thank You!



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<http://www.municipalfinance.ri.gov>