General Assembly

January Session, 2017

House of Representatives

File No. 754

(Reprint of File No. 560)

House Bill No. 7296
As Amended by House Amendment
Schedule "A"

Approved by the Legislative Commissioner
May 11, 2017

AN ACT AUTHORIZING THE FUNDING OF UNFUNDED ACCRUED MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM LIABILITIES BY MUNICIPALITIES.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

Section 1. Section 7-441 of the general statutes is repealed and the following is substituted in lieu thereof (*Effective July 1, 2017*):

(a) For purposes of this section:

(1) "General obligation" means an obligation issued by a municipality and secured by the full faith and credit and taxing power of such municipality;

(2) "Municipal employees' retirement system pension funding bond" means an obligation issued by a municipality to fund, in whole or in part, an outstanding unfunded accrued liability to the system;

(3) "Obligation" means any bond or any other transaction which constitutes debt in accordance with both municipal reporting standards in section 7-394a and the regulations prescribing municipal

financing reporting adopted by the secretary pursuant to section 7-394a;

(4) "Unfunded accrued liability to the system" means the amount necessary for the payment of future pensions based upon the service of members rendered prior to their becoming members of the system, less any amount transferred to the fund from any other retirement fund on account of such members, as determined by the Retirement Commission upon sound actuarial principles consistently applied; and

(5) "Weighted average maturity" means (A) the sum of the products, determined separately for each maturity or sinking fund payment date and taking into account any mandatory redemptions of the obligation, of (i) with respect to a serial obligation, the principal amount of each serial maturity of such obligation and the number of years to such maturity, or (ii) with respect to a term obligation, the dollar amount of each mandatory sinking fund payment with respect to such obligation and the number of years to such payment, divided by (B) the aggregate principal amount of such obligation.

[(a)**]** (b) Each participating municipality shall be liable to the fund for an amount determined by the Retirement Commission on sound actuarial principles to be necessary for the payment of future pensions based upon the service of members rendered prior to their becoming members, less any amount transferred to the fund from any other retirement fund on account of such members, and for any increases in future benefits provided by amendments to this chapter to the extent that such increases are based on service prior to the effective date of such amendments; and in the case of a transfer of service credit between two participating municipalities under the provisions of section 7-442a where an increase in benefits results, the municipality to which the employee is transferred shall be liable to the fund for an amount so determined to be necessary for the payment of the increase in future pensions, based upon the service of the transferred member rendered subsequent to the commencement of his membership and prior to the effective date of transfer. The municipality shall pay annually to the Retirement Commission to be credited to the fund such amounts fixed by said commission as shall discharge such liability over a period not exceeding thirty years from the earliest effective date of participation as to any department in the Connecticut Municipal Employees' Retirement Fund, or a period not exceeding twenty years from the date of such transfer or increase in benefits, or entrance of a member into membership, whichever period shall be longer, except that the Retirement Commission may approve one consolidated amortized payment for the discharge of two or more separate liabilities running for different periods, such payments to be made over a period terminating not later than the latest date prescribed for the discharge of any one of such liabilities.

[(b)**]** <u>(c)</u> All participating municipalities shall pay monthly to the Retirement Commission to be credited to the fund such proportion of the pay of all members employed by such municipality as is determined from time to time by the Retirement Commission on sound actuarial principles to be necessary in addition to the contributions by members to provide future pensions based on service rendered by members subsequent to the effective date of participation as defined in section 7-427 other than the excess pensions referred to in subsection **[**(a)**]** <u>(b)</u> of this section. In the case of members serving with the armed forces of the United States in time of war or hostilities or national emergency, whether declared or undeclared, or any acts incident thereto, as provided in section 7-434, the municipality shall forward to the Retirement Commission to be credited to the fund a like contribution based on the pay of such member at the time of entering such service, in addition to paying the member's contribution as provided in section 7-440. If such member is not reemployed within six months following the termination of such service, unless this period is further extended by reason of disability incurred in such service, the municipality shall be entitled to receive from the fund, on application to the Retirement Commission, the amount of such contributions. If the Retirement Commission should find that the payments made to it under this subsection by any municipality have been more than sufficient because such municipality has elected to provide Social Security coverage for its employees, the commission, using sound actuarial principles, shall determine a refund, or a credit which shall be applied to the payments required of the same municipality under subsection [(a)] (b) of this section in a manner to be determined by the commission.

[(c)] (d) All municipalities shall contribute on account of retirement allowances for disability an additional proportion of the pay of members employed in such municipality to be determined by the Retirement Commission upon sound actuarial principles.

[(d)] (e) Each municipality shall also pay to the Retirement Commission annually a proportionate share of the cost of the administration of the fund or funds in which it participates, as determined by the commission on the basis of the number of members employed by such municipality and the number of members retired from employment with such municipality, or their beneficiaries, who are currently receiving benefits from the retirement system established by this part.

[(e)] (f) The rates of contribution provided in subsections [(b)] (c) and [(c)] (d) of this section shall be varied among policemen and firemen in fund B participating in the Old Age and Survivors Insurance System, other members of fund B so participating, policemen and firemen in fund B not so participating and other members of fund B not so participating, but each rate shall be uniform within each such class.

[(f)] (g) If any payment due under this section is not paid within two months from the date when due, interest shall be added to such payment at the prevailing rate of interest as determined by the Retirement Commission. Such interest shall be paid by the municipality.

[(g)] (h) A municipality shall pay annually to the Retirement Commission, to be credited to fund B, such amounts fixed by the commission as shall discharge said municipality's liabilities for its contributions under this subsection and section 7-436 over a period not exceeding twenty years, provided no such payments shall be due until July 1, 1974.

(i) Notwithstanding the provisions of the general statutes, any special act, charter, special act charter, home-rule ordinance, local ordinance or local law governing the authorization and issuance of bonds, notes or other obligations and the appropriation of the proceeds thereof, a municipality participating in the system that has an unfunded accrued liability to the system as of July 1, 2017, may authorize and issue municipal employees' retirement system pension funding bonds to fund all or a portion of such municipality's outstanding unfunded accrued liability to the system, as determined by the Retirement Commission upon sound actuarial principles consistently applied, and the payment of costs related to the issuance of such bonds, in accordance with the following requirements:

(1) The municipality shall, not later than thirty days prior to the issuance of municipal employees' retirement system pension funding bonds, notify the Secretary of the Office of Policy and Management, State Treasurer and Retirement Commission of such municipality's intent to issue such bonds, and include with such notice (A) the amount of the outstanding unfunded accrued liability to the system based on the existing schedule of pension amortization payments, as determined by the Retirement Commission based on sound actuarial principles consistently applied; (B) the amount of any remaining annual pension amortization payments scheduled for payment by the municipality for the portion of the outstanding unfunded accrued liability to the system that will not be defrayed by such bonds; (C) a comparison of the anticipated effects of funding the outstanding unfunded accrued liability to the system through the issuance of such bonds with the funding of such liability through the annual payments scheduled for payment as determined by the Retirement Commission pursuant to subsection (b) of this section; (D) documentation of the municipality's authorization of the issuance of such bonds, including,

but not limited to, a certified copy of the resolution or ordinance of the municipality authorizing the issuance of such bonds and the opinion of nationally recognized bond counsel as to the due authorization of the issuance of such bonds; and (E) other information and documentation required or requested by the Secretary of the Office of Policy and Management, State Treasurer or Retirement Commission to carry out the provisions of this section; and

(2) Not later than ten days after the sale of such bonds, the municipality shall provide the Secretary of the Office of Policy and Management, State Treasurer and Retirement Commission with a final financing summary. Such final financing summary shall include, but not be limited to, (A) the final official statement, if any, with respect to the issuance of such bonds, and (B) a comparison of the anticipated effects of funding the outstanding unfunded accrued liability to the system through the issuance of such bonds with the funding of such liability through the annual payments scheduled for payment, as determined by the Retirement Commission pursuant to subsection (b) of this section.

(j) Except as otherwise provided by this section, the provisions of this chapter apply to any municipal employees' retirement system pension funding bonds issued pursuant to this section. Such bonds shall be general obligations of the municipality, and shall be serial bonds maturing in annual or semiannual installments of principal or term bonds with mandatory annual or semiannual deposits of sinking fund payments into a sinking fund. Notwithstanding the provisions of the general statutes, any special act, charter, special act charter, home-rule ordinance, local ordinance or local law, (1) the first installment of any series of such bonds shall mature or the first sinking fund payment of any series of such bonds shall be due not later than eighteen months from the date of issuance of such series, and the last installment of any series of such bonds shall mature or the last sinking fund payment of any series of such bonds shall be due not later than thirty years from the date of issuance of such series; (2) any such bonds may be sold at public sale on sealed proposal, by negotiation or private placement in such manner and at such price or prices, at such time or times and on such terms or conditions as the municipality or the officers or board of the municipality delegated the authority to issue such bonds, determines to be in the best interest of the municipality; and (3) no municipality shall issue temporary notes in anticipation of the receipt of proceeds from the sale of such bonds.

(k) Proceeds of municipal employees' retirement system pension funding bonds, to the extent not applied to the payment of costs related to the issuance thereof, shall be paid to the Retirement Commission, not later than thirty days after the date of issuance of such bonds, to fund all or a portion of the outstanding unfunded accrued liability to the system for which such bonds were issued.

(l) A municipality may, pursuant to section 7-370c, authorize and issue refunding bonds to pay, fund or refund prior to maturity any municipal employees' retirement system pension funding bonds, provided, notwithstanding the provisions of section 7-370c, the weighted average maturity of such refunding bonds shall not exceed the weighted average maturity of the municipal employees' retirement system pension funding bonds being paid, funded or refunded by such refunding bonds. The municipality shall notify the Secretary of the Office of Policy and Management, State Treasurer and Retirement Commission of such municipality's intention to issue refunding bonds pursuant to this subsection not less than ten days prior to the issuance of such bonds, and shall provide said Secretary, State Treasurer and Retirement Commission with copies of the final official statement, if any, prepared for such bonds not later than ten days after the issuance of such bonds.

(m) The Secretary of the Office of Policy and Management, in consultation with the State Treasurer, may adopt regulations, in accordance with the provisions of chapter 54, to establish guidelines concerning compliance by municipalities with the provisions of this section.

Sec. 2. Section 7-439c of the general statutes is repealed and the following is substituted in lieu thereof (*Effective July 1, 2017*):

The liability for the increase in benefits provided by sections 7-439b to 7-439d, inclusive, for retirement allowances based on service rendered before July 1, 1979, shall be discharged by extending the period required for the annual amortization payments being made by the municipality under section 7-441, as amended by this act, before July 1, 1977, until the date when the total past service liability shall be discharged. Such date shall not be subject to the limits provided in subsection **[**(a)**]** (b) of section 7-441, as amended by this act. The proportion of contributions paid to the Retirement Commission monthly under the terms of subsection **[**(b)**]** (c) of said section shall, effective July 1, 1979, include the cost of applying the adjustments of sections 7-439b to 7-439d, inclusive, to retirement allowances credited for service rendered after July 1, 1979.

This act shall take effect as follows and shall amend the following sections:		
Section 1	*July 1, 2017*	7-441
Sec. 2	*July 1, 2017*	7-439c

OFA Fiscal Note

State Impact: None

Municipal Impact:

Municipalities	Effect	FY 18 $	FY 19 $
Various Municipalities	See Below	See Below	See Below

Explanation

The bill will result in a fiscal impact to municipalities who participate in the Municipal Employees' Retirement System (MERS) and choose to issue pension obligation bonds (POBs) in accordance with the amendment, to fund all or a portion of any unfunded pension liability. The impact to the municipality will depend on the outcome of the bond issuance, including the costs of issuance, interest on the POBs, and repayment terms, compared to current amortization payments required by MERS. The impact of a POB issuance is anticipated to impact only the issuing municipality. Any administrative expenses related to the receipt and review of bond documents are assumed to be paid out of the MERS fund. The MERS' current administrative fee is $130 a year per active and retired member. As of the most recent actuarial valuation (6/30/2016) the unfunded liability of MERS is $394.8 million.

House "A" eliminates the original bill and its associated fiscal impact and results in the impact described herein.

The Out Years

The annualized ongoing fiscal impact identified above would continue into the future subject to the repayment terms of the POBs and any refinancing or refunding of the bonds.

Sources: Municipal Employees' Retirement System Actuarial Valuation (as of June 30, 2016)

OLR Bill Analysis

HB 7296 (as amended by House "A")*

AN ACT AUTHORIZING THE FUNDING OF UNFUNDED ACCRUED MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM LIABILITIES BY MUNICIPALITIES.

SUMMARY

Existing law requires each municipality participating in the Municipal Employees Retirement System (MERS) to pay the unfunded costs of future pensions for employees brought into the system. Current law generally requires municipalities to pay this unfunded liability in annual installments over a period of up to 30 years. This bill allows municipalities that have accrued an unfunded liability to the system as of July 1, 2017 to authorize bonds to pay all or part of the unfunded liability and establishes procedures they must follow when issuing the bonds. It refers to these bonds as MERS pension funding bonds.

The bill applies regardless of any state or local law concerning the authorization, issuance, or appropriation of bonds, notes, or other obligations. It authorizes the Office of Policy and Management (OPM) secretary, in consultation with the state treasurer, to adopt regulations establishing guidelines on municipal compliance with the unfunded liability payments to the Municipal Employee Retirement Fund (MERF) and the MERS pension funding bonds.

*House Amendment "A" (1) limits the authorization to issue the bonds to municipalities participating in the system that have an unfunded accrued liability to MERS as of July 1, 2017; (2) - requires that the bonds mature no later than 30 years from the date they are issued; (3) increases, from 15 to 30, the number of days notice the municipality must provide to state officials before issuing the bonds;

and (4) eliminates an incorrect statutory reference to the definitions of three terms and incorporates the definitions into the bill.

EFFECTIVE DATE: July 1, 2017

MERS PENSION FUNDING BONDS

Unfunded Accrued Liability to the System

The bill allows a municipality participating in MERS that has an "unfunded accrued liability to the system" as of July 1, 2017 to authorize and issue MERS pension funding bonds to pay all or part of its outstanding liability plus the bond issuance costs. It defines this liability as the amount necessary to pay for future employee pensions based on the employees' service before joining the system, reduced by any amount transferred to MERF from other retirement funds on account of such employees. The retirement commission determines this unfunded liability based on consistently applied sound actuarial principles.

Notice of Intent to Issue Bonds

A municipality issuing these bonds must, at least 30 days before the issuance, notify the OPM secretary, state treasurer, and retirement commission of its intent to issue the bonds and provide:

1. the amount of its outstanding accrued liability to the system based on the existing schedule of pension amortization payments, as determined by the retirement commission based on sound actuarial principles;

2. the amount of any remaining annual pension amortization payments scheduled for payment by the municipality for the portion of its unfunded liability to the system that the bonds will not offset;

3. a comparison of the anticipated effects of funding the liability through bonds versus doing so through annually scheduled payments;

4. documentation of the municipality's authorization of the bond issuance, including a certified copy of the resolution or ordinance authorizing the bond sale and an opinion by a nationally recognized bond counsel as to the due authorization to issue the bonds; and

5. any other information the OPM secretary, treasurer, or retirement commission requires or requests.

Final Financial Summary

The bill requires the municipality to submit a final financial summary to the OPM secretary, treasurer, and retirement commission within 10 days after the bond sale. The summary must (1) include any final official statement for the bond issuance and (2) compare the anticipated effects of funding the liability by issuing bonds versus doing so by making annually scheduled payments.

Bond Structure

Under the bill, the MERS pension funding bonds are general obligations of the municipality (i.e., backed by the full faith and credit of the issuing municipality). They must be either (1) serial bonds that mature in annual or semiannual principal installments or (2) term bonds with mandatory annual or semiannual deposits into a sinking fund. (A sinking fund is a fund created to regularly set aside funds sufficient to pay the debt.) Despite any state or local law to the contrary, the first installment of any series of such bonds must mature, or the first sinking fund payment must be made, no later than 18 months after the bonds are issued. Also, the last installment or payment must be made within 30 years from the issuance date.

Forms and Conditions of Sale

The bill allows, despite any state or local law to the contrary, municipalities to sell the bonds through a public sale using sealed proposals, by negotiation, or by private placement. They must do so in the manner, at the price, at the time, and on the terms and conditions the municipality or its bond issuance board or officers determine is in the best interest of the municipality. The municipality may not issue temporary notes in anticipation of the bond proceeds.

Use of Bond Proceeds

The municipality must pay the proceeds of any MERS pension funding bonds not used to pay the bond issuance costs to the retirement commission within 30 days after the sale.

Refunding Bonds

The bill authorizes – a municipality to issue refunding bonds to pay, fund, or refund any of the MERS pension funding bonds before their maturity in accordance with state law. However, the weighted average maturity of the refunding bonds may not exceed the weighted average maturity of the outstanding MERS pension funding bonds being paid, funded, or refunded.

Under the bill, "weighted average maturity" is the sum of the products of the principal amount of each serial obligation, or dollar amount of each mandatory sinking fund payment with respect to such obligation, and the number of years to maturity or to such payment (determined separately for each maturity or sinking fund payment and taking into account mandatory redemptions), divided by the aggregate principal amount of the obligation.

The municipality must notify the OPM secretary, treasurer, and retirement commission of its intention to issue refunding bonds at least 10 days before issuing them -. It must give them a copy of any final official statement within 10 days after the refunding bonds are issued.

COMMITTEE ACTION

Planning and Development Committee

Joint Favorable
Yea 17 Nay 4 (03/24/2017)