PLCM

The Pennsylvania League of Cities and Municipalities

May 3, 1993

To: Representative Mike Veon
Representative John Wozniak
Representative Sue Laughlin
Representative Herman Mihalich
Representative Dave Levdansky
Representative Richard Olasz

From: Jay Himes, Deputy Director

Subject: Act 205 Amendment

Today, Representative Leo Trich and Representative Tom Michlovic will introduce legislation to amend Act 205 in order to prevent seven third class cities from making mandatory, retroactive pension contributions. The seven cities are Washington, McKeesport, Johnstown, Duquesue, Monessen, Aliquippa and Beaver Falls.

If this legislation is not adopted Washington, McKeesport and Johnstown will be required to make additional pension payments of $500,000 or more next year; the other four cities additional contributions will be between $100,000 - $250,000.

The necessity for this legislation is a result of the Auditor General's interpretation of Act 205. The Auditor General has disallowed the reversion to a phased-in funding standard under sections 607(g) or (h) of Act 205 by municipalities (see attached legislation). Therefore, these cities are liable for retroactive payments for the years in which the Auditor General has determined the reversion was not authorized by Act 205. (Note: The act also does not prohibit the reversion).

This bill is being introduced in rapid fashion in order to meet the scheduling of the Public Employee Retirement Commission's May meeting and to keep the bill on schedule to move through the General Assembly prior to the summer recess.

I hope you will agree to serve as a co-sponsor. You can contact Representative Trich at 787-9473 or see him on the floor today. This bill is a technical amendment. It will not change the Act 205 formula or provide additional funding to any municipality. The legislation merely clarifies the option to municipalities in meeting the Acts's funding standards.

Thank you for your consideration.

CC: Representative Leo Trich
Representative Thomas Michlovic
Representative Mike Sturla, Third Class City Subcommittee Chair
Representative Tom Dempsey, Third Class City Subcommittee, Minority Chair

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Sophie Masloff, Mayor, Pittsburgh, *President* John A. Garner, Jr., *Executive Director*

LEO J. TRICH, JR., MEMBER
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SEAL OF THE HOUSE OF REPRESENTATIVES OF PENNSYLVANIA

House of Representatives

COMMONWEALTH OF PENNSYLVANIA
HARRISBURG

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M E M O

HB 1524

SUBJECT: Co-sponsorship of Legislation

TO: Representatives Michlovic, Levdansky, Olasz, Mihalich, Wozniak, Veon and Laughlin

FROM: Rep. Leo J. Trich, Jr. L.J.T.

DATE: May 3, 1993

After discussions with Rep. Michlovic and Jay Himes from the Pennsylvania League of Cities and Municipalities, I will be introducing legislation today to protect the Municipal Pension Funds of the third-class cities which we represent. As you are certainly aware, the cities of Mckeesport, Monessen, Johnstown, Duquesne, Beaver Falls, Aliquippa and Washington are facing a severe shortage in their pension funds due, in part, to a misinterpretation of the provisions of Act 205 from a few years back. This legislation will help insure the stability of these Municipal Pension Funds on a short-term basis by clarifying the intent of Act 205.

While this legislation will correct a short-term immediate problem for these cities, there are a number of long-term issues which we must also address in the General Assembly. I anticipate Rep. Michlovic will take the lead on these provisions. It is my hope that we can deal with these in the near future and that you will support these long-term goals as well.

If you would like to co-sponsor the legislation to be introduced today, please contact my office at 7-9473.

Office of the Mayor

CITY OF WASHINGTON
Francis L. King

Pension

May 13, 1993

Honorable Leo Trich, Jr.
378 W. Chestnut St.
Washington, Pa. 15301

Dear Leo:

I have just received today a rough copy of House Bill No. 1524 which is designed to provide legislative relief for Act 205 distressed cities that have paid the full Minimum Municipal Obligation to a pension plan and then in the following year returned to the phase-in provision of Act 205 to compute the MMO.

This Legislation appears to be the relief we need in order to avoid making one large, lump-sum payment, which no doubt would result in a tax increase for our citizens.

It appears that HOuse Bill No. 1524 will and strength and flexability to Act 205 and at the same time will not impair the required adequate funding of distressed pension plans under Act 205.

Iknow of your interest and support of this cause and I I just want you to know that I support House Bill 1524 and would urge your favprable consideration of it also.

Provided you have any questions or comments please feel free to contact me at your convenience.

Very Truly,

Francis L. King

Francis L. King
Mayor

MAY 17 1993

55 WEST MAIDEN STREET WASHINGTON, PENNSYLVANIA 15301
412-223-4200
FAX 412-223-4229

MM&C&P

Mockenhaupt, Mockenhaupt, Cowden & Parks, Inc.

May 7, 1993

Honorable Leo Trich
Pennsylvania House of Representatives
P.O. Box 133
Harrisburg, PA 17120-0028

RE: House Bill No. 1524

Dear Representative Trich:

We have reviewed House Bill No. 1524 and would like to express our support for this legislation. This Bill would codify current practice and provide relief in certain instances for municipalities that qualify for the Recovery Program of Act 205 of 1984.

The changes in the first paragraphs of Sections 607(g) and 607(h) codify the informal practices of the Bureau of Municipal Pension and Firemen's Relief Association Audits and the Public Employee Retirement Commission (PERC). Both agencies realize that it was not the legislature's intent to force municipalities participating in the Recovery Program and utilizing the phase-in provision, to contribute more to their plans than is required by the Minimum Municipal Obligation (MMO) without the use of the phase-in provision.

If a municipality that is utilizing the phase-in provision either decides to provide the full amount of the pre-phase-in MMO to a plan through an allocation of General Municipal Pension System State Aid or finds, as the result of an actuarial valuation, the full MMO for one of its plans is lower than the prior year's municipal contribution to the plan, the current wording of Sections 607(g) or 607(h) would require that the municipality contribute to the plan an amount equal to its municipal contribution in the preceding year. As a result, the plan could receive contributions greater than the full MMO from a municipality that is distressed for purposes of Act 205. Fortunately, PERC and the Bureau, through their current practice, have found a way around the problem; these changes simply incorporate this solution into the Act.

The changes to the last paragraphs of Sections 607(g) and 607(h) offer relief for Act 205 distressed municipalities that have provided the full MMO at any time and then subsequently reverted to using the phase-in provision to calculate their MMO. Regulations issued by PERC during July 1992 state that once a distressed municipality has provided the full MMO to a plan, it may no longer use the phase-in provision for that plan. Act 205 distressed municipalities that provided the full MMO during one of the plan years from 1987 through 1992 are now being told to contribute substantial sums of money and never use the phase-in provision again. This requirement is a burden on these municipalities, especially since the additional amounts not previously contributed are being paid into the plans over a period of time through the rules for the amortization of gains and losses.

MAY 12 1993

Employee Benefit Consultants, Actuaries, and Administrators
Eleventh Floor
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Pittsburgh, Pennsylvania 15222-1416
Telephone 412-394-9300

Every time a pension plan receives contributions that are less than those actuarially required, a contribution loss occurs. There are several reasons for a plan to experience a contribution loss in any year: the plan could be utilizing the contribution phase-in provision of Act 205, employee contributions could be lower than anticipated, or contributions could be received during the year without adjustment for interest.

Also, required contributions are determined before the beginning of the year to which they apply. As a result, a contribution gain or loss occurs based upon the difference between the actuarial costs in the earlier valuation which is used for the MMO, and the actual valuation for the year.

The contribution loss is combined with other gains or losses to determine the experience gain or loss. When a valuation is performed, the experience gain or loss amortization amount is determined and becomes part of the required funding for future years. Therefore, all contribution losses are eventually paid off. Since these municipalities are paying off the contribution losses incurred by their plans, no further payment need be made. The only real difference between the amendment to Act 205 presented in this Bill and funding as required by PERC is the timing of the receipts.

Municipalities are given a one-time option under the Bill to return to the use of the phase-in provision during 1993. Moderately distressed municipalities (Level II under Act 205) could elect to contribute 90% of the full MMO during 1994 and would be required to contribute 100% of the full MMO starting in 1995. Severely distressed municipalities (Level III) could resume contributions at 60.3% of the full MMO. Many Level III municipalities have become alarmed at the steady increase in the amount they must contribute each year because of the phase-in provision, which may dissuade some of these municipalities from restarting the phase-in.

Language has been added to the Act allowing PERC to control the ability of plans to resume the use of the phase-in provision after January 1, 1994. PERC can issue whatever regulations it sees fit to control the determination process.

We believe that House Bill No. 1524 will strengthen Act 205 and will not impair the adequate funding of pension plans in municipalities that are distressed under Act 205. We urge you to support this Bill.

Sincerely,

Richard C. Mockenhaupt

Richard C. Mockenhaupt, Director
Public Employee Benefit Services

MDR:sm:514

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GOVERNOR'S ECONOMIC DEVELOPMENT PARTNERSHIP — HEALTH CARE

June 22, 1993 file

Francis L. King, Mayor
City of Washington
55 West Maiden Street
Washington, PA 15301

Dear ~~Mayor King~~: Francis

As promised earlier, I wanted to update you on my efforts to assist the City of Washington in its effort to minimize the actuarial deficiencies for its various pension plans.

The most recent "administrative remedy" tentatively agreed to (by Harrisburg parties), leaves the city fire plan with a deficiency of $135,480 and the police pension fund with a shortfall of $46,503. Combined, the City of Washington would have to contribute $181,983 over an **8 year period.** Although I had requested 10 years, the State Employees Retirement Commission has assured me that they will accept this 8 year time frame.

I believe this time frame, as opposed to the 5 year plan, which some had suggested, will minimize the burden which the City of Washington will have to contribute annually.

In addition, I understand the last adopted city budget allocates $95,000 for pension debt retirement. If a portion of this line item was, in fact, contributed to the pension shortfall, the city's payments would be even more affordable. Perhaps the balance of this $95,000 line item could then be used for other services or new purchases which the city could use.

Rest assured, I will continue to seek the most affordable solution for the City of Washington's pension problem. Discussions are continuing between my office, the League of Cities and Municipalities and the State Employees Retirement Commission regarding other administrative solutions that will also assist other cities including the City of McKeesport. At this time, it is unclear how any mutable proposal will affect Washington. It could have a positive impact, and I am hopeful of having a more definite answer for you within a week or so. The combined figure presently on the table, however, is a great deal better than the initial $400,000 plus figure originally considered.

Keep in mind what I have referred to in this communique deals with administrative remedies -- rather than legislative, as I first proposed. The State Retirement Commission felt legislative action would be detrimental to them, and thus, they would be in opposition. Although it remains an option, an administrative answer with "their blessings", would be faster and cleaner. I felt it important to clarify this point with you.

In the meantime, if there is anything else I can do for you, please do not hesitate to contact my office.

Sincerely,

Leo

Leo J. Trich, Jr.
State Representative
47th District

LJT:ls

cc: City Council