

ESSEX REGIONAL RETIREMENT BOARD
AUGUST 17, 2015

At a special meeting of the Essex Regional Retirement System (ERRS) held on Monday, August 17, 2015 at 491 Maple Street, Suite 201 at 1:00 p.m. the following Board members were present for all or some of the meeting: H. Joseph Maney, Vincent R. Malgeri, Susan J. Yaskell, and Kevin A. Merz.

Also in attendance for all or some of the meeting were:

Jane Dooley, Board Secretary
Charles E. Kostro, ERRS Executive Director
Michael Sacco, ERRS General Counsel
Renee Davis, Powers & Sullivan
Jim Powers, Powers & Sullivan
Larry Stone, ERRS Actuary
Brad Hill, State Representative
Ted Speliotis, State Representative
Maura Driscoll, aide to Rep. Hill
Alan Leo, Boston Globe correspondent

ERRS Board Chairman H. Joseph Maney called the meeting to order at 1:00 p.m. The Board said the pledge of allegiance.

Opening Statement by the Chair – Recording of the Meeting

In accordance with the open meeting law, this is to notify attendees that this meeting is being recorded by the secretary to the Board.

Public Comment

None.

**Approval of Wire Transfer for July
Cash Disbursement Warrant CD2015.08a**

Upon a motion by Vincent R. Malgeri, seconded by Susan J. Yaskell, the Board voted: 4-0, to approve the Cash Disbursement Warrant CD2015.08a for August 2015 as presented below in the total amount of \$30,612,407.00.

Vendor	Amount
State Street Bank Transfer to Eastern Bank - Proceeds from Investment Distributions	5,600,000.00
Eastern Bank Transfer to PRIM - Annual Appropriation Transfer	25,000,000.00
Principal Green Real Estate – Management Fees 04/01/2015 – 05/30/2015	7,357.00
Purchase Power - Postage Pre-payment	5,050.00
Total	30,612,407.00

Essex Tech Legislation Update – Representatives Brad Hill and Ted Speliotis

Representative Brad Hill described how the legislation has not failed and representatives have been working with Governor's and Speaker's office as well as the Ways and Means Committee. Communication has occurred with President's office in the Senate. The legislation will be addressed in a supplemental budget and there has been a two fiscal year effort to add money to this legislation to get the state to help with the Essex Tech retirees annual pension cost.

A meeting with A&F had occurred at the state level where there was interest expressed in helping with those costs for the last two years but moving forward an entity (Essex Tech) would responsible for the cost. Essex Tech's legal counsel has been asked for an explanation as to why the School believes it is not that entity. The School's superintendent is on vacation and will be until he retires on October 17, 2015. The School's legal counsel will report to legislators relative to another meeting with A&F this week to hear why the School believes it is not the entity responsible for the now defunct Essex Agricultural School's retiree pension benefit costs. Rep. Hill said the legislation will move forward whether or not the explanation from the School's legal counsel is received.

Discussion ensued about the request in supplemental budget for \$700,000 for FY'15 and FY'16 retiree pension costs as well as requirement that ERRS will be allowed to bill Essex Tech for retiree retirement expenses moving forward. Rep. Hill stated that this would be included in one bill and close out books for FY'15. Rep. Ted Speliotis noted that Essex Tech superintendent is adamant that the School is not responsible for the cost and that PERAC is supportive of that position. He opined that pressure of legislation could move local and state entities to reach resolution (i.e., this worked with a similar bill, Home Rule petition, on retirement issue in Springfield). PERAC had provided

information to ERRS on the matter relative to ERRS needing legislation to bill the School directly. ERRS had requested of PERAC ability to use 3(8)c process to bill Essex Tech directly through the Salem retirement board and PERAC stated that ERRS needed clarification. Also mentioned was how expensive Essex Tech was for member communities and administrative cost that was historically borne by Salem and the retirement board was not accepting the present/future responsibility. Speliotis opined that legislation should not be passed that does not reach a consensus locally.

Discussion was on late file legislative process with supplemental budget so a public hearing would not be required. The Governor's office was not willing to commit to providing any funds until the entity was defined who would pay future expenses moving forward, and legislation was passed in supplemental budget. If everyone agrees that Essex Tech is the successor agency, the School would be the responsible agency. The issue is the School is not paying ERRS. If there was not a successor agency then the state would be required to pay through funding from cities and towns. The School has hired lobbyists with the opposing position to ERRS's position that Essex Tech should pay as the successor agency.

Also noted was impact of 9C cuts from \$2.4 million to \$500,000 where the remaining amount went entirely to the School to assist funding cities and towns. The \$700,000 in unpaid expenses for retiree costs from the School is not being well received as an additional expense that the Commonwealth has to address. Next steps were reiterated about an upcoming meeting with the School's counsel for written summary about why Essex Tech is not the successor agency. In addition, it was acknowledged that the School's member communities or taxpayers are going to have to pick up the increased School costs if Essex Tech is determined not to be the successor agency.

Essex Tech Cost Allocation & GASB 67/68 Compliance

Discussion was on how this compliance requires ERRS to allocate what each unit's cost is for unfunded liability for retirement system. The greatest complication is how ERRS will deal with Essex Tech. Powers & Sullivan is responsible for issuing an audit opinion on financial statements and allocation reports. GASB 68 mandates expected future contribution rate for allocation for employers and should include allocation for Essex Tech. Who will pay for the School's allocation is undetermined and if this cost is not on the School's financial statement this is an issue for Essex Tech's auditors. Any issues relative to this would be discussed between the School and Powers & Sullivan.

Also addressed were assets and liabilities associated with the counties in the Commonwealth being abolished and Essex Agi where there is a regional retirement transfer and unfunded liability deficit including 3(8)c payments. The audit report ready to be finalized will be presented by Powers & Sullivan to member units on Thursday morning at Wenham Town Hall to help communities understand their unfunded liability when giving this report to their auditors.

Discussion was about PERAC audit and GASB audit information (i.e., unmodified audit opinion, sensitivity analysis, best rate of return and assumptions relative to 10-year schedule) included in the annual report. The auditor reported on allocation to all of the communities regarding percentages for unfunded liability and received certification from member communities on payroll numbers so field visits were not necessary. ERRS is funded 52.27% towards its unfunded liability as of 12-31-14 measurement date.

In addition, P&S issued an unmodified opinion on schedules determined by actuary which were audited to ensure an accurate representation for allocations. This includes a line item for Essex Tech for \$374,629 for fiscal year 2015 allocation. The School was not billed by ERRS in FY'16 for the retiree liability (including four people who retired shortly before June 30, 2014). It was noted for FY'17 if the assessment should be reduced for member units that overpaid in FY'16 as an appropriation credit.

Discussion addressed when legislation is done, the amount ERRS did not bill the School in FY'16 will be resolved (i.e., \$374,000 due that was billed to ERRS member communities). It was noted PERAC has approved a combination of payroll and actuary valuation in allocation determination for unusual circumstances such as Essex Tech. The auditor has recommended ERRS use the actuarial allocation going forward in FY'17. ERRS will seek input from PERAC on this suggestion to use split actuarial model for 48 member units including the School. Also mentioned were cost sharing plan details associated with payroll numbers for housing authorities and method used for percentage of payroll for ERRS board members. The report will give member units information on how the percentages were built, amortization of deferred amount, and schedule of pension liability amounts.

Also noted were differences between audit and actuarial report related to federal grant money which is considered an employer contribution. A PERAC memo addresses how to reduce the contribution or show as an excess. The actuarial report does not show the Essex Agi money coming in as is shown in audit report. In addition, there were three different possible payroll comparisons.

Upon a motion by Vincent R. Malgeri, seconded by Kevin A. Merz, the Board voted: 4-0 to approve the audit report/financial statements ending December 31, 2014 as presented by auditing firm Powers & Sullivan with footnote on contributions from Stone Consulting.

Essex Tech – Legal Options

Sacco opined that ERRS Board should potentially discuss options in Executive Session in two weeks at its August 31, 2015 meeting after it has an update on status of legislative action as discussed earlier in the meeting.

If the ERRS Board pursued a declaratory judgment on the matter it would be a complaint asking the court to declare respective rights of parties and Essex Tech is the successor agency under the legislation and assessment of damages as well as monies owed

including interest and funding action going forward. The legal question is submitted to court for bench decision and is resolved through a motion for summary judgment based on facts and documents, and assessment of each parties' rights. If the School is declared the successor agency according to legislation then ERRS can send a bill directly. If the School does not pay the bill ERRS could file an action. The complaint would ask the court to declare that Essex Tech is not only liable for FY'15 and FY'16 assessments but going forward is responsible for future liabilities starting with FY'17 or an agreed upon third party all relative to Essex Tech's financial liability going forward.

Discussion ensued about how the complaint could take less time than the 18 months for legislation to go through and how legislative process could cost the School \$700,000 less than dollar amount owed ERRS if Commonwealth does not step in to resolve paying outstanding balance that the School owes using taxpayers' money. ERRS has wanted the School to pay its unfunded liability by billing Essex Tech directly.

Discussion was on if the Essex Aggie retirees could be transferred to Salem Retirement System but such a proposal has never been discussed with abolition of county. If this transfer occurred a financial component would have to be associated with it. Also reiterated was that PERAC had weighed in stating that ERRS could not use 3(8)c process to bill Essex Tech, legislation was needed for clarification on the billing matter, PERAC had not given an opinion on who is the successor agency. In addition, if ERRS should communicate with Essex Tech School Committee about the issue. Sacco opined that the Board should wait to hear from the School's counsel in writing if Essex Tech is the successor agency.

Motion to Adjourn

Upon a motion by Vincent R. Malgeri, seconded by Susan J. Yaskell, the Board voted 4-0, to adjourn the meeting at 2:40 p.m.

H. Joseph Maney, Chair

Susan J. Yaskell

Kevin A. Merz

Vincent R. Malgeri