ORDINANCE 1806
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Council's Amending Ordinance

AN ORDINANCE AMENDING PORTIONS OF ARTICLE VI OF CHAPTER 7 OF THE CODE OF ORDINANCES MODIFYING PENSION FUNDING POLICIES AND ESTABLISHING A GENERAL OBLIGATION PENSION BONDS RESERVE FUND

WHEREAS, the City of Norwich (the "City") has established the City of Norwich Employees' Retirement Plan (the "Plan") for the benefit of certain employees and their beneficiaries; and

WHEREAS, retirement benefits for members of the Plan are paid from the Employees Retirement Fund (the "Fund"); and

WHEREAS, the assets of the Fund consist of pooled monies that include appropriations from the City and contributions from members of the Plan; and

WHEREAS, the Plan has a large unfunded actuarial accrued liability in the approximate amount of $144 million and, as a result, the City's annual actuarially determined contribution to the Fund is projected to increase significantly each year; and

WHEREAS, section 7-374c of the Connecticut General Statutes, as amended, authorize municipalities to issue general obligation pension bonds to fund all or a portion of an unfunded actuarial accrued liability, as determined by an actuarial valuation, and the payment of costs related to the issuance of such bonds; and

WHEREAS, due to historically low interest rates for municipal debt, it is anticipated that the proceeds from the issuance of such bonds, when invested as part of Fund assets in higher yielding asset classes, should achieve a long-term rate of return that is greater than the interest rate owed over the term of the bonds; and

WHEREAS, the City's Comptroller projects that the issuance of such bonds is expected to lower the long-term net cost of the Plan, thereby improving the City's fiscal stability; and
WHEREAS, with Ordinance 1802, the City Council has authorized the issuance of general obligation pension bonds in the amount of $145 million; and

WHEREAS, the City wishes to establish a reserve fund for the purpose of mitigating potential increases in the required annual actuarially determined contribution to the Fund in the event of significantly adverse market performance of pension assets.

NOW, THEREFORE, BE IT ORDAINED BY THE COUNCIL OF THE CITY OF NORWICH, that the following modifications be made to the ordinances governing the City's pension and funding policies:

Sec. 7-132. - Pension and other post-employment benefits funding.

The city shall have actuarial valuations of its pension and other post-employment benefits ("OPEB") plans performed at least biennially.

Sec. 7-132.1. - Actuarial cost method.

The city shall use an actuarial cost method which conforms to the current actuarial standards of practice and allocates normal costs over a period beginning no earlier than the date of employment and ending no later than the last assumed retirement age. The selected actuarial cost method should be designed to fully fund the long-term costs of contractual benefits while equitably allocating the costs over the employees' period of active service.

Sec. 7-132.2. - Actuarial asset method.

The city shall recognize actuarial gains or losses on the differences between actual investment returns and the assumed rate of return over no longer than five years on a straight-line basis.

Sec. 7-132.3. - Amortization of unfunded actuarial accrued liability.

The Unfunded Actuarial Accrued Liabilities ("UAALs") as reflected in the regular Actuarial Valuation of the Fund shall be amortized over a closed period of 26 years starting on the July 1, 2021. Once the closed period reaches 10 years, the amortization method shall switch to a 10-year layered basis.

Sec. 7-132.4. - Contributions.

(a) Generally. The city shall contribute the Actuarially Determined Contribution ("ADC"), as defined by Government Accounting Standards Board Statements 68 and 75, each fiscal year unless the amount varies by more than 15 percent ± from the previous year. This variance shall be calculated by division (e.g., Norwich Public Utilities, Norwich Public Schools, Police, Fire, Volunteer Fire, and all other General City).

(b) If the ADC is less than 85 percent of the previous year's contribution, the city shall contribute an amount equal to 85 percent of the previous year's contribution.

(c) If the ADC is greater than 115 percent of the previous year's contribution, the city shall contribute an amount equal to 115 percent of the previous year's contribution.

[NEW] Sec. 7-133 – Pension obligation bonds and pension reserve fund.

Whenever the city has outstanding pension obligation bonds ("POBs"), Sec. 7-133 and its subsections shall supercede the contribution provisions in 7-132.4 for the pension fund or funds for which the POBs were issued and the divisions (within the meaning of Sec. 7-132.4) participating in such pension fund or funds.

[NEW] Sec. 7-133.1 – Pension reserve fund.

Upon issuance of POBs, the city shall establish a pension reserve fund. The pension reserve fund shall be a special revenue fund with the purpose of mitigating the volatility of future ADCs and shall be accounted for by division.

[NEW] Sec. 7-133.2 – Contributions.

a) During the fiscal year in which the City issues POBs, the divisions shall contribute an amount equal to what their ADC would have been for that fiscal year to the pension reserve fund.
b) During fiscal years subsequent to the issuance of POBs, the divisions shall contribute the ADC into the pension fund or funds for which the POBs were issued.
c) In any fiscal year, if the amount of a division's ratable ADC plus its ratable debt service on the POBs decreases from the prior fiscal year, that division shall contribute the decreased amount in the following order until the specified limits provided below have been satisfied:
    i. To the pension reserve fund in an amount equal to such difference capped at (1) – (2), where (1) is equal to six percent (6%) of the division's pension actuarial accrued liability as of the valuation date that determined the ADC for the current fiscal year, and (2) is equal to the division's pension reserve fund balance as of the same date ; then
    ii. To the pension trust in an amount equal to such difference less any amounts contributed per (i) capped at (3) - (4), where (3) is equal to one hundred fifteen percent (115%) of the division's pension actuarial accrued liability as of the valuation date that determined the ADC for the current fiscal year, and (4) is equal to the division's pension actuarial value of assets as of the same date; then
    iii. To the OPEB trust in an amount equal to such difference less any amounts contributed per (i) and (ii) capped at (5) - (6), where (5) is equal to one hundred fifteen percent (115%) of the division's OPEB actuarial accrued liability as of the valuation date that determined the ADC for the current fiscal year, and (6) is equal to the division's OPEB actuarial value of assets as of the same date.

[NEW] Sec. 7-133.3 – Distributions from the pension reserve fund.

a) In any fiscal year, if the amount of a division's ratable ADC plus its ratable debt service on the POBs increases by more than three percent from the prior fiscal year, such division may use some or all of its share of the balance in the pension reserve fund to offset such increase in excess of three percent.
b) After the POB debt is extinguished, the City Council may approve by resolution the use of a division's remaining balance in the pension reserve fund for one or more of the following purposes:
    i. Additional contributions to the pension trust if such division's pension actuarial value of assets as of the most recent valuation date is less than one hundred fifteen percent (115%)of the division's pension actuarial accrued liability as of the same date;
    ii. Additional contributions to the OPEB trust, if applicable to such division, if such division's OPEB actuarial value of assets as of the most recent valuation date is less than one hundred fifteen percent (115%) of the division's OPEB actuarial accrued liability as of the same date;
    iii. Capital improvements to benefit such division; or
    iv. Contributions to a self-insurance fund to benefit such division.

City Manager John Salomone