

DRAFT

RESOLUTION NUMBER 2013-58

INITIAL RESOLUTION AUTHORIZING THE CITY OF FRANKLIN, TENNESSEE TO ISSUE ITS GENERAL OBLIGATION BONDS IN THE AGGREGATE PRINCIPAL AMOUNT OF NOT TO EXCEED \_\_\_ MILLION \_\_\_ HUNDRED THOUSAND DOLLARS (\$\_\_\_\_\_)

WHEREAS, the Board of Mayor and Aldermen (the "Board") of the City of Franklin, Tennessee (the "Municipality") desires to authorize not to exceed \$\_\_\_\_\_ to finance certain unfunded pension obligations described below.

BE IT RESOLVED by the Board that for the purpose of financing (i) certain unfunded pension obligations arising from the City of Franklin Employee Pension Plan administered by the Municipality; (ii) payment of legal and fiscal costs incident to the foregoing; and (iii) payment of costs incident to the indebtedness described herein, the Municipality shall borrow money and incur indebtedness through the issuance of its general obligation bonds in the aggregate principal amount of not to exceed \$\_\_\_\_\_ which shall bear interest at a rate or rates not to exceed the maximum rate permitted by law and which shall be payable from ad valorem taxes to be levied on all taxable property within the Municipality in an amount sufficient to pay when due the annual amount payable by the Municipality for the bonds as and when it becomes due and payable.

BE IT FURTHER RESOLVED by the Board that the Recorder of the Municipality be, and is, hereby directed and instructed to cause the foregoing initial resolution relative to the issuance of general obligation bonds in the amount not to exceed \$\_\_\_\_\_ to be published in full in a newspaper having a general circulation in the Municipality, for one issue of said paper followed by the statutory notice, to-wit:

NOTICE

The foregoing resolution has been adopted. Unless within twenty (20) days from the date of publication hereof a petition signed by at least ten percent (10%) of the registered voters of the Municipality shall have been filed with the Recorder of the Municipality protesting the issuance of the general obligation bonds, such bonds will be issued as proposed.

Recorder

Adopted and approved this \_\_\_\_ day of \_\_\_\_, 201\_.

\_\_\_\_\_  
Mayor

ATTEST:

\_\_\_\_\_  
Recorder

STATE OF TENNESSEE )

COUNTY OF WILLIAMSON )

I, Eric Stuckey, certify that I am the duly qualified and acting Recorder of the City of Franklin, Tennessee, and as such official I further certify that attached hereto is a copy of excerpts from the minutes of a regular meeting of the governing body of the Municipality held on \_\_\_\_ \_\_, 201\_\_; that these minutes were promptly and fully recorded and are open to public inspection; that I have compared said copy with the original minute record of said meeting in my official custody; and that said copy is a true, correct and complete transcript from said original minute record insofar as said original record relates to not to exceed \$\_\_\_\_\_ general obligation bonds of said Municipality.

WITNESS my official signature and seal of said Municipality on this the \_\_\_\_\_ day of \_\_\_\_\_, 201\_\_.

\_\_\_\_\_  
Recorder

(SEAL)

12283146.1

The Board of Mayor and Aldermen of the City of Franklin, Tennessee, met in regular session on \_\_\_\_ \_\_, 201\_, at 7:00 p.m. at the City Hall, Franklin, Tennessee, with the Honorable Ken Moore, Mayor, presiding.

The following Aldermen were present:

The following Aldermen were absent:

There were also present Eric Stuckey, City Administrator/Recorder, and Russell Truell, Chief Financial Officer.

After the meeting was duly called to order, the following resolution was introduced by \_\_\_\_\_, seconded by \_\_\_\_\_ and after due deliberation, was adopted by the following vote:

AYE:

NAY:

## GASB Issues New Pension Standards

On June 25, 2012, the Governmental Accounting Standards Board (GASB) approved two pronouncements that will significantly impact nearly every governmental entity. These standards were published on August 2, 2012, and are “intended to improve the accounting and financial reporting of public employee pensions by state and local governments.” How will these standards do that? The main intent is to have more clarification by showing the liability for pensions on the balance sheet rather than in the notes to the financial statements.

So what exactly does that mean? It means that state and municipal governments must not only report as a liability the difference between “the contributions they are required to make to a pension plan in a given year versus what is actually funded” (the current requirement), but governments must also report the net pension liability, which is the difference between the “total pension liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value set aside to pay current employees, retirees, and beneficiaries.)

You may be thinking that does not seem like a very big deal. Well, according to the Pew Center on the States, “the gap between the promises states have made for public employees’ retirement benefits and the money they have set aside to pay these bills was at least \$1.38 trillion in fiscal year 2010” for states and municipal governments. Some believe the idea is that financial users will get a better grasp of how future proposed benefit increases really effect the next generation. In addition, governments need to keep better track of the annual costs of pension benefits so that they can be measured “comprehensively and comparably.”

The two statements that are being changed are the following: Statement No. 67, *Financial Reporting for Pension Plans* (which is the change discussed above) and Statement No. 68, *Accounting and Financial Reporting for Pensions*. The adjustments required to conform to Statement No. 68 can be summarized as follows:

### **Note Disclosures and Supplementary Information**

**Statement 68 requires employers to present more extensive note disclosures and RSI, including:**

- Descriptive information about the types of benefits provided.
- How contributions to the pension plan are determined.
- Assumptions and methods used to calculate the pension liability.

**Single and agent employers will disclose additional information, such as:**

- Composition of the employees covered by the benefit terms.
- Sources of changes in the components of the net pension liability for the current year.

**A single or agent employer also will present required supplementary information (RSI) schedules covering the past ten years regarding:**

- Sources of changes in the components of the net pension liability.
- Ratios that assist in assessing the magnitude of the net pension liability.
- Comparisons of actual employer contributions to the pension plan with actuarially determined contribution requirements, if an employer has actuarially determined contributions.

Statement 67 is effective for periods beginning after June 15, 2013, while Statement 68 is effective for fiscal years beginning after June 15, 2014. Early application is permitted and encouraged for both statements.

Compiled by David J. Fitch, CPA of Stone, Rudolph & Henry, PLC from the publication "GASB's New Pension Standards Now Available" published in August 2012 by Accountingweb.com.



# PENSION FUNDING:

## A Guide for Elected Officials

Report from the Pension Funding Task Force 2013

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**Issued by:**

National Governors Association (NGA)  
National Conference of State Legislatures (NCSL)  
The Council of State Governments (CSG)  
National Association of Counties (NACo)  
National League of Cities (NLC)  
The U.S. Conference of Mayors (USCM)  
International City/County Management Association (ICMA)  
National Council on Teacher Retirement (NCTR)  
National Association of State Auditors, Comptrollers and Treasurers (NASACT)  
Government Finance Officers Association (GFOA)  
National Association of State Retirement Administrators (NASRA)





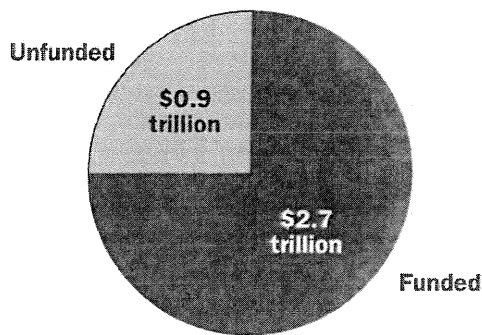
# PENSION FUNDING: A Guide for Elected Officials

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## Introduction

Defined benefit pension plans have a long history in public sector compensation. These plans are typically funded through a combination of employer and employee contributions and earnings from investments. Public pension plans hold more than \$3 trillion in assets in trust on behalf of more than 15 million working and 8 million retired state and local government employees and their surviving family members. The pie chart below illustrates the 2011 funded status of 109 state-administered plans and 17 locally administered plans. These plans represent 85 percent of total state and local government pension assets and members.

**Figure 1.** Funding of Aggregate Pension Liability, 2011



Source: BC-CRR Estimates based on *Public Plans Database (PPD)*.

The value of securities held by public and private retirement plans declined significantly following the economic crisis of 2008–2009, causing an increase in unfunded pension liabilities. The range of those unfunded public pension liabilities varies widely among governments. These same governments also have enacted major changes in their retirement plans over the past decade. Today, some public pension plans are well funded, while others have seen their funded status decline.

Now another change is on the horizon: new pension accounting standards issued by the Governmental Accounting Standards Board (GASB) in 2012. GASB Statement No. 67, *Financial Reporting for Pension Plans*, takes effect for pension plan fiscal years beginning after June 15, 2013 (fiscal years ending on or after June 30, 2014). GASB Statement No. 68, *Accounting and Reporting for Pensions*, applies to employers (and contributing nonemployers) in fiscal years beginning after June 15, 2014 (fiscal years ending on or after June 30, 2015).

These new accounting standards will change the way public pensions and their sponsoring governments report their pension liabilities. In particular, the new standards no longer provide guidance on how to calculate the actuarially determined annual required contribution (ARC), which many governments have used not only for accounting, but also to budget their pension plan contribution each year. In fact, these new GASB accounting standards end the relationship between pension accounting and the funding of the ARC.

In addition to GASB's new accounting standards, policymakers should be aware that rating agencies such as Moody's may use yet another set of criteria to assess the impact of pension obligations on the creditworthiness of a municipal bond issuer. If the ratings agencies publicize their pension calculations, state and local officials would be faced with the challenge of interpreting three sets of pension numbers: an accounting number to comply with the GASB's financial reporting requirements, an actuarial calculation to determine funding requirements for budgeting purposes, and a financial analysis figure produced by bond rating agencies to evaluate and compare issuers of municipal debt.

This guide provides key facts about public pension plans, why it is essential to have a pension funding policy, a brief overview of the new GASB standards, and which issues state and local officials need to address. The guide also offers guidance for policy makers to use when developing their pension plan's funding policy.

## Pension funding background

In the 1970s, it was not uncommon for state and local governments to fund their pensions on a pay-as-you-go basis. Following the passage of ERISA, which set private sector funding requirements, state and local officials took steps to fully advance-fund their pensions. They were further encouraged to meet their actuarial funding obligations by new accounting and reporting standards issued by the GASB in 1986.

The trend to improve pension funding continued over the next decade. When the GASB issued Statements 25 and 27 in 1994, employers were required to disclose information on plan assets and liabilities in their financial reports. More important, to comply with GASB, employers also had to disclose their actuarially determined ARC and the percentage of the ARC the employer actually paid. The GASB defined the ARC to include the normal cost of pensions for today's employees plus a contribution to pay for any unfunded liabilities, typically amortized over a maximum 30-year period. Paying the full ARC has been an important measure of whether or not a pension plan is on track to fund its pension promises.

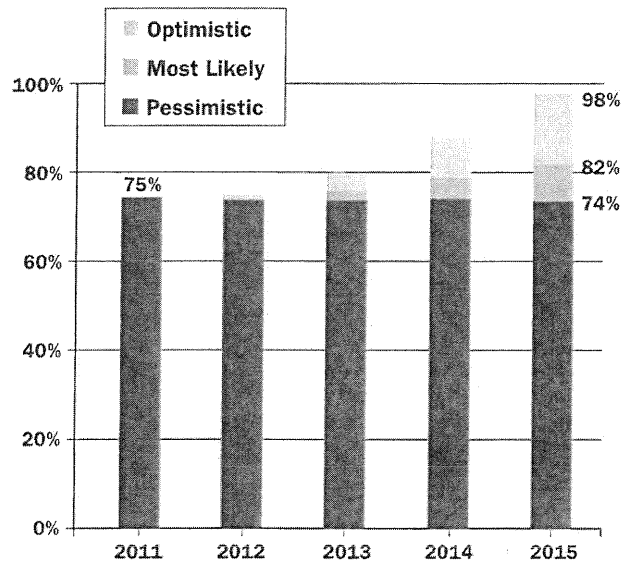
By the turn of the century, public pensions were as well funded as private pensions. In fact, most public plans were nearly 100 percent funded in 2000. Unfortunately, the last decade of economic upheaval and the wide swings in the stock market have reduced pension assets in both public and private plans.

In 2011, the estimated aggregate ratio of assets to liabilities slipped to 75 percent<sup>1</sup>. State and local officials have stepped up their efforts to restore pension funding. According to the National Conference of State Legislatures, 44 states have enacted major changes in state retirement plans from 2009–2012.<sup>2</sup> Changes have included increases in employee contributions to pension plans, longer vesting periods, reduced benefit levels, higher retirement ages, and lower cost-of-living adjustments. Some modifications may apply to new workers only, while others affect current employees and/or retirees.

## Pension funding policies

A variety of state and local laws and policies guide decisions concerning pension funding practices. Many state and local governments have passed legislation that stipulates how pensions should be funded. Others

**Figure 2.** Projected State and Local Funding Ratios Under Three Scenarios, 2011–2015



Source: BC-CRR estimates for 2011–2015 based on *Public Plans Database* (PPD).

have policies that address how pension assets are to be invested or if pension reserves must be maintained.

Generally speaking, employers with well-funded pension plans take a long-term approach to estimating investment returns, adjust their demographic and other assumptions as needed, and consistently pay their annual required contribution in full.

A clear pension funding policy is important because it:

- Lays out a plan to fund pensions;
- Provides guidance in making annual budget decisions;
- Demonstrates prudent financial management practices;
- Reassures bond rating agencies; and
- Shows employees and the public how pensions will be funded.

## GASB's new approach

Under prior GASB statements, there was a close link between accounting and funding measures. That link has now been broken. The new GASB standards

1 Munnell, Alicia H., Aubrey, Jean-Pierre, Hurwitz, Josh, Medinica, Madeline, and Quinby, Laura, "The Funding of State and Local Pensions: 2011–2015," Center for State and Local Government Excellence, May 2012.

2 Snell, Ron, "State Retirement Legislation 2009–2012," National Conference of State Legislatures, July 31, 2012.

focus entirely on accounting measurements of pension liabilities and no longer on how employers fund the cost of benefits or calculate their ARC. This is a significant change for government employers because the ARC historically served as a guide for policy makers, employees, bond rating agencies and the public to determine whether pension obligations were being appropriately funded. The ARC also often was used to inform budget decisions.

Today, employers report a liability on the face of their financial statements only if they fail to fully fund their ARC (just as a homeowner would report a liability only for mortgage payments in arrears). Thus, many government employers today do *not* report a liability for pensions on the face of their financial statements. However, if the plan they sponsor does have an unfunded pension liability, it is reported in the notes to the financial statements, which are considered an integral part of financial reporting. In contrast, under the new GASB standards, employers will report their unfunded pension liability on the face of their financial statements, even if they fully fund each year's ARC (just as a homeowner would report a mortgage liability even if all monthly mortgage payments are paid on time, in full). Thus, in the future, all employers will report any unfunded pension liability on the face of their financial statements, and that amount may be substantial for many.

Furthermore, those seeking to know how much an employer should be contributing each year to the pension plan and how much the employer actually contributed (funding information) today can find that information in the employer's financial report. In contrast, under the new GASB pension accounting standards, employers will no longer *automatically* be required to obtain an actuarially determined ARC and then include information concerning that amount and actual employer contributions in their financial report.

## Filling the gap in funding guidance

Because the GASB's new standards focus entirely on how state and local governments should account for pension liabilities and no longer focus on how employers fund the costs of benefits or calculate their ARC, a new source of guidance is needed.

To help fill that gap, the national associations representing local and state governments established a Pension Funding Task Force (Task Force) to develop policy guidelines.

The "Big 7" (National Governors Association, National Conference of State Legislatures, Council of State Governments, National Association of Counties, National League of Cities, U.S. Conference of Mayors, and the International City/County Management Association) and the Government Finance Officers Association established a pension funding task force in 2012. The National Association of State Auditors, Comptrollers and Treasurers; the National Association of State Retirement Administrators; and the National Council on Teacher Retirement also serve on it. The Center for State and Local Government Excellence is the convening organization for the Task Force.

The Task Force has monitored the work of the actuarial community and the rating agencies, as well as considered recommendations from their own organizations to develop guidelines for funding standards and practices and to identify methods for voluntary compliance with these standards and practices.

The actuarial and finance communities have been working on the pension funding issues and will be invaluable resources as governments make needed changes. Indeed, the California Actuarial Advisory Panel and the Government Finance Officers Association have issued guidelines consistent with the Task Force's recommendations, but with a greater level of specificity. The Conference of Consulting Actuaries is also preparing similar guidance. State and local officials are encouraged to review the guidelines and best practices of these organizations.

It also is important to note that some governments with well-funded pension plans will determine that they need to make few, if any, changes to their funding policies, while others may face many challenges. Keep in mind that changes can be made over time. A transition plan can address changes that may need to be phased in over a period of years. For example, an employer or retirement board that currently amortizes its unfunded liabilities over 30 years could adopt a transition plan to continue that schedule (as a fixed, decreasing period) for current unfunded liabilities and to amortize any new unfunded liabilities over 25 years. In five years, that pension plan would have completed its transition to a 25-year amortization period.

In many cases, governments will need to strike a balance between competing objectives to determine the most appropriate timeframe in which to meet their goals.

## Task force recommendations

States and localities have established distinct statutory, administrative and procedural rules governing

how retirement benefits are financed. While nothing in the new GASB standards or the possible credit rating agency changes *requires* a change in funding policy, the Task Force recommends pension funding policies be based on the following five general policy objectives:

1. Have a pension funding policy that is based on an actuarially determined contribution.
2. Build funding discipline into the policy to ensure that promised benefits can be paid.
3. Maintain intergenerational equity so that the cost of employee benefits is paid by the generation of taxpayers who receives services.
4. Make employer costs a consistent percentage of payroll.
5. Require clear reporting to show how and when pension plans will be fully funded.

A sound pension funding policy should address at least the following three core elements of pension funding in a manner consistent with the policy objectives:

- Actuarial cost method;
- Asset smoothing method; and
- Amortization policy.

These core elements should be consistent with the parameters established by GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, with which most governmental entities currently comply. Such parameters specify an actuarially determined ARC that should comply with applicable Actuarial Standards of Practice (ASOP No. 4), be based on an estimated long-term investment yield for the plan, and should amortize unfunded liabilities over no more than 30 years. The actuarially determined ARC, the parameters for determining the ARC, and the percentage of the ARC the employer actually paid should be disclosed and reassessed periodically to be sure that they remain effective. To that end, the Task Force recommends that state and local governments not only stay within the ARC calculation parameters established in GASB 27, but also consider the following policy objectives when reviewing each core element of their funding policy:

**Actuarial Cost Method:** the method used to allocate the pension costs (and contributions) over an employee's working career.

**Policy Objectives:**

1. Each participant's benefit should be fully funded under a reasonable allocation method by the expected retirement date.

2. The benefit costs should be determined as a level percentage of member compensation and include expected income adjustments.

**The Entry Age Normal (level percentage of payroll) actuarial cost method is especially well-suited to meeting these policy objectives.**

**Asset Smoothing Method:** the method used to recognize gains or losses in pension assets over some period of time to reduce the effects of market volatility and provide stability to contributions.

**Policy Objectives:**

1. The funding policy should specify all components of asset smoothing, such as the amount of return subject to smoothing and the time period(s) used for smoothing a specific gain or loss.
2. The asset smoothing method should be the same for both gains and losses and should not be reset or biased toward high or low investment returns.

**The use of a five-year period for "smoothing" investment experience is especially well-suited to meeting these policy objectives.**

**Amortization Policy:** the policy that determines the length of time and structure of payments required to systematically fund accrued employee benefits not covered by the actuarial value of assets.

**Policy Objectives:**

1. The adjustments to contributions should be made over periods that appropriately balance intergenerational equity against the goal of keeping contributions level as a percentage of payroll over time.
2. The amortization policy should reflect explicit consideration of (a) gains and losses actually experienced by a plan, (b) any changes in assumptions and methods, and (c) benefit or plan changes.
3. The amortization of surplus requires special consideration consistent with the goal of stable costs and intergenerational equity.

**Amortizing the various components of the unfunded actuarial accrued liability over periods that focus on matching participant demographics but also, except for plan amendments, consider managing contribution volatility, is especially well-suited to meeting these policy objectives.**

## Conclusion

The most important step for local and state governments to take is to base their pension funding policy on an actuarially determined contribution (ADC). The ADC should be obtained on an annual or biannual basis. The pension policy should promote fiscal discipline and intergenerational equity, and clearly report when and how pension plans will be fully funded.

Other issues to address in the policy are periodic audits and outside reviews. The ultimate goal is to ensure that pension promises can be paid, employer costs can be managed, and the plan to fund pensions is clear to everyone.

## Resources

1. GFOA best practice, *Guidelines for Funding Defined Benefit Pension Plans*, at: [www.gfoa.org](http://www.gfoa.org)
2. GASB Statements No. 67 and 68 at: [www.GASB.org](http://www.GASB.org)
3. GASB Statement 27: [http://www.gasb.org/cs/ContentServer?site=GASB&c=Document\\_C&pagename=GASB%2FDocument\\_C%2FASBDocumentPage&cid=1176160029312](http://www.gasb.org/cs/ContentServer?site=GASB&c=Document_C&pagename=GASB%2FDocument_C%2FASBDocumentPage&cid=1176160029312)
4. Moody's Request for Comments: Adjustments to US State and Local Government Reported Pension Data at: [http://www.wikipension.com/wiki/Moodys\\_Request\\_For\\_Comments](http://www.wikipension.com/wiki/Moodys_Request_For_Comments)
5. National Conference of State Legislatures, changes to state pension plans at: <http://www.ncsl.org/documents/employ/2012-LEGISLATION-FINAL-Aug-31-2012.pdf>
6. The National Association of State Retirement Administrators for examples of state funding policies at: [www.NASRA.org](http://www.NASRA.org)
7. Center for State and Local Government Excellence for examples of changes to state and local government pension plans at: <http://slge.org>
8. California Actuarial Advisory Panel at: <http://www.sco.ca.gov/caap.html>
9. Conference of Consulting Actuaries at: <http://www.ccactuaries.org/index.cfm>