DRAFT MINUTES
Governor McDonnell's Task Force for
Local Government Mandate Review
September 27, 2013 at 10:00 a.m.
Main Street Centre
12th Floor North Conference Room
600 East Main Street
Richmond, Virginia 23219

Members Present
The Honorable Pat Herrity, Chair
The Honorable Joan Wodiska, Vice-chair
The Honorable Bob Dyer
Kimball Payne

Members Absent
The Honorable Shaun Kenney

Government Reform Commission Liaisons to the Task Force Present

Government Reform Commission Liaisons to the Task Force Absent
The Honorable Suzy Kelly
The Honorable Alicia Hughes

I. Call to Order

Mr. Herrity called the meeting to order at 10:12 a.m. on September 27, 2013, at the Main Street Centre Building in Richmond, Virginia

II. Approval of Minutes of Task Force Meeting on July 31, 2013

Mr. Payne made a motion, which was seconded by Mr. Dyer, to approve the draft minutes of the Task Force's July 31, 2013 meeting, as presented. The motion passed with Mr. Payne, Mr. Dyer and Mr. Herrity voting aye, and Ms. Wodiska abstaining.

III. Approval of Draft Agenda

Mr. Herrity proposed amending the draft agenda to provide the opportunity for public input immediately following the Virginia Retirement System (VRS) presentation. Ms. Wodiska made a motion, which was seconded by Mr. Dyer, to approve the draft agenda, as amended. Such motion passed unanimously.

IV. Pension Obligations of Local Governments and their Fiscal Impact

Mr. Barry Faison, Chief Financial Officer of VRS provided a presentation on VRS modernization and pension reform changes, a copy of which are attached to these minutes.

In response to a request from Ms. Wodiska, Mr. Faison explained that the new Government Accounting Standards Board (GASB) requirement to include pension liability on local government balance sheets may have some effect on bond ratings, but the pension liability has always been included elsewhere in financial statements, so the rating agencies should have already taken that liability into account. He added that VRS has communicated with the rating agencies to ensure that information is available in Virginia's financial statements to show how the pension obligations are to be divided among jurisdictions.

Mr. Herrity asked how that liability is to be split among the state and localities. Mr. Faison explained that state employees, teachers, and each political subdivision are in separate plans. He added that the state is not responsible for any of the liability associated with the teacher pension fund, because the state aid for teacher pension is passed through the local school division.

There was discussion regarding the state's constitutional responsibility to provide an education system, and the chart on slide #8, which showed the rising number of pensioners by year.

Mr. Faison stated that it is anticipated for cost increases to stabilize, especially as hybrid plan employees become a more significant piece of the workforce. Mr. Payne commented that in communities where public safety is a significant portion of the local expenditures, that trend may not occur because future public safety employees will not participate in the hybrid plan. Mr. Dyer noted that stagnant salaries frequently cause employees, especially in public safety, to change jobs to other jurisdictions.

Ms. Wodiska noted that the state provided localities with flexibility in implementing the requirement for employees to pay 5% toward their pension by providing a 5 year window to gradually phase in the mandated pay raises. Mr. Faison added that the requirement was mandated statewide to provide consistency and discourage employees from moving from one locality to another.

Mr. Herrity opened the floor to public comment on the pension discussion.

Mr. Dean Lynch with the Virginia Association of Counties (VACo) came forward and stated that this is a huge issue for local governments, citing a $15.2 billion increase in liabilities that will be reflected on the financial statements of Virginia's localities. He added that VACo believes that providing education is a shared responsibility, and that the state should share a portion of that liability. He stated that VACo is exploring whether VRS payments can go directly from the Department of Education for the state share of teacher pension so that the liability will be reflected on the state's financial statement.

DRAFT

Ms. Mary Jo Fields with the Virginia Municipal League commented that the state currently pays for a portion of teacher salaries, and that retirement is a portion of a total compensation package, and as such the state should be responsible for some of that liability. She added that the retired teacher health insurance credit was created as a 100% state paid benefit in 1996, but in 2002, it was funded through the Standards of Quality formula, resulting in a 64% local funding responsibility, in addition to the liability that will be reflected in the local financial statements.

Mr. Jim Campbell with VACo expressed concern that the new deferred compensation plans make individuals responsible for managing their investment, and that they may not have sufficient knowledge needed to properly do so. Mr. Faison responded that VRS has funds that are managed based upon a target retirement date, and automatically directs new employee's deferred compensation into a default investment mix geared toward their target retirement date. In addition, VRS has other programs to provide financial advice, training, and investment flexibility.

Ms. Wodiska moved that the task force study this issue further with the intent to develop key recommendations for the Governor and General Assembly. Mr. Dyer seconded the motion.

Ms. Wodiska stated that the study would ideally be completed in the next 60 days. She suggested developing a process to engage local government stakeholders and studying what other states have done relative to local government retirement issues. She added that her biggest concern is the effect on bond ratings from new GASB ruling on pension liability. Mr. Herrity said that he was concerned with the mandate on non-VRS-participating localities to provide retirement equivalent to 2/3 of VRS benefits.

Mr. Dyer expressed concerns about employee retention. Mr. Faison said the only way to reduce liability for current employees is to reduce their pension benefit, and that future employees are not reflected in the total liability. He also said that actuarially, the defined benefit plan is more expensive to the employer than the deferred compensation, because of potential losses due to poor investment performance. Deferred compensation is easier for employers, because the benefit is immediately paid out to the employee with no associated long-term liability.

Ms. Wodiska suggested developing a detailed timeline describing a process for engaging public input and presentations from experts. She recommended identifying key areas of study, opining on those areas, and recommending certain areas for further action or investigation. She suggested that this document be two to ten pages. She said she would also like input from financial experts and officials in other states that have dealt with similar issues. Mr. Herrity said that he would like to get a speaker or two at the next meeting to talk about the liability impact.

DRAFT

Ms. Wodiska restated her motion that a study on the retirement issues be completed with recommendations within the next 60 days, with public input and expert speakers on the issue. Such amended motion was seconded by Mr. Dyer.

Mr. Payne stated that he believed that bringing in additional speakers was reasonable, and expressed doubts as to the task force's capacity to complete such a study within the timeframe. He said that he should be able to get a speaker from Davenport & Company. Ms. Wodiska volunteered to assist finding the experts from other states, but she said the challenge would be in transporting those experts to Richmond, suggesting teleconferencing as a solution. She suggested getting interest groups to volunteer staff time to draft the report.

Mr. Lynch stated that VACo would be happy to assist. Mr. Herrity said a document is needed to be before the task force to consider at the next meeting. Ms. Fields stated that VML has already drafted some documents that may help.

Ms. Wodiska agreed to amend her motion to state that within 60 days the task force will reconvene with presentations from financial experts, officials from other states, and a position paper with recommendations for consideration from VML and VACo. Mr. Dyer seconded the motion, and the motion was unanimously approved.

Members of the task force thanked Mr. Faison for his presentation.

V. Update from the Government Reform Commission

Mr. Robbins stated that the executive order that created the Government Reform Commission expired, and therefore the group is no longer active.

VI. Update from the Commission on Local Government's Task Force for Fiscal Impact Review

Mr. Herrity stated that he sent the letter from this task force to the Commission on Local Government's Fiscal Impact Review Task Force that requested their reconsideration of supporting the reinstatement of the first day of session introduction requirement for local fiscal impact bills.

Mr. Lanza then provided an update on the work of the Task Force. He explained that the group had created four subject areas for bill analysis, explaining that each area would consist of an equal amount of local government employees and professional organization representatives. He added that statutory amendments had been drafted so that the Department of Taxation and Department of Planning and Budget could refer bills to the Commission for fiscal impact review. Mr. Lanza noted that creation of a web application by the Department of Housing and Community Development's IT staff is being explored to collect data and reduce the amount of staff time required to complete a bill review. Finally, he

DRAFT

advised that the letter from this task force that was mentioned by Mr. Herrity is included on the FIS task force's agenda for its next meeting on September 30th.

Mr. Herrity asked that the proposed legislation be distributed to task force members. Mr. Lanza agreed, and commented that the legislative changes are not drastic, and only adds authorization for the two aforementioned departments to forward bills to the Commission for review.

VII. Discussion of Work Plan for the Final Year of the Task Force

a. Educating gubernatorial candidates about the Task Force

Mr. Herrity said that he had heard back from both gubernatorial campaigns, and anticipates sitting down with both within the next week.

b. Reinstatement of requirement to file bills with a local fiscal impact by the first day of session

Mr. Herrity recommended sending a letter to all localities regarding this initiative, which would suggest that they include this in their 2014 legislative package. Ms. Wodiska stated that school boards tend to pass individual resolutions for issues like this. Mr. Herrity said he will share the draft with the members and also attach a suggested resolution for governing bodies to consider.

c. Establishment of a permanent process for ongoing discussions between localities and state agencies

Ms. Wodiska and Mr. Herrity observed the progress that has been made in some agencies regarding these initiatives. Discussion ensued as to how to make these ongoing intergovernmental discussions permanent. Mr. Payne and Mr. Herrity both suggested sharing this success story with the gubernatorial candidates and transition team.

d. Extending the Task Force's authorizing legislation

Mr. Campbell came forward and stated that this body has been the best opportunity for dialogue with state government that has existed in several decades since the Local Government Advisory Commission existed in the 1970s. Mr. Herrity stated that it may be appropriate for the extension authorization to be combined with the establishment of a permanent process for local and state agency discussions.

e. Regent University case study on the impact of mandates on Virginia Beach

Mr. Dyer introduced three students from Regent University: Chris Meconnahey, Eric Lupardus, and Steve Pincus. He explained that the students are working on a project with the City of Virginia Beach to

DRAFT

determine the total impact of mandates to the City. There was discussion among the members and the students to help provide direction for their project. Mr. Dyer said that the students can provide the members with an executive summary or a presentation of the ten most noteworthy mandates.

VIII. Public Comment

Mr. Herrity opened the floor to public comment.

Mr. Neal Menkes from VML stated that "no later than first day introduction" of local fiscal impact bills has been incorporated into the VML legislative package that will be considered at the VML Annual Conference. He also suggested that the task force seek legislative patrons now to extend the body's authorization, so that the bill could be prefiled.

Mr. Lynch stated that the same item, along with the continuation of the task force, is included in VACo's draft legislative package that will be considered at its Annual Conference.

Mr. Mike Garrett with the Virginia Department of Transportation stated that the new state-local discussion at VDOT has been successful and applauded by management at the agency.

IX. Comments from Task Force Members

There was discussion as to whether the task force should make a motion to encourage state officials to extend its authorization. Ultimately, it was determined that a discussion should first occur with the gubernatorial candidates and potential legislative patrons.

X. Scheduling of Future Meetings

By consensus, the members determined that the next meeting would be held November 1, 2013 at 10 a.m. in the Richmond area.

XI. Adjournment

There being no further business, Mr. Herrity adjourned the meeting at 12:46 p.m.

DRAFT