

**SOUTH STRABANE TOWNSHIP
BOARD OF SUPERVISORS SPECIAL MEETING**

AUGUST 13, 2019

APPROVED MEETING MINUTES

1. CALL TO ORDER

The August 13, 2019 Special Meeting of the South Strabane Township Board of Supervisors (Board) came to order at 1:00 p.m. in the Mae C. Reynolds Meeting Room of the Municipal Building (550 Washington Road).

Board of Supervisors Richard Luketich, Chairman; Bob Weber, Vice Chairman; Bracken Burns; Thomas Moore; and Laynee Zipko.

Also Present Township Manager Brandon Stanick; Assistant to the Township Manager Patrick Conners; Township Solicitor Dennis Makel; and Fire Chief Scott Reese.

A list of three visitors is on file at the Municipal Building.

2. PLEDGE OF ALLEGIANCE

Chair Luketich led the Pledge of Allegiance.

Chair Luketich stated the Board met in Executive Session prior to the meeting for the purpose of discussing ongoing litigation.

3. PUBLIC COMMENT

Chair Luketich stated the Board allocates a period of time during this item for those individuals who would like the opportunity to address the Board on any matter. Each person addressing the Board is asked to limit their comments to a maximum of three (3) minutes.

Mr. Mike Gomber, Mayor of East Washington Borough came before the Board to express his support for South Strabane Township and East Washington Borough partnering in the exploration of establishing a single waste and recycling hauler. Mayor Gomber stated the joint negotiating power should lead to a more competitive bid result benefiting the residents of both municipalities. Mayor Gomber also voiced his desire for both municipalities to partner together to offer glass drop off events in the future. The Board thanked Mayor Gomber for his attendance and comments.

4. ANNOUNCEMENTS

There were no announcements.

5. TOWNSHIP REPORTS

Township Manager's Report

Township Manager Stanick stated the Budget Calendar has been submitted to the Board and will be finalized at the next monthly meeting. He also highlighted the Board would need to discuss the possibility of moving future meeting dates due to the Holiday season.

6. NEW BUSINESS

6A: Presentation and Discussion with Representatives of the Pennsylvania Municipal Retirement System

Mr. Steve Vaughn, Secretary of the Pennsylvania Municipal Retirement System (PMRS), came before the Board to discuss the state of the Police, Fire, and Non-Uniform pension plans, highlighting that the Fire and Non-Uniform Pensions are managed through PMRS. Mr. Vaughn briefly discussed the background of the Township's pension plans. He outlined the state of the Township's Firefighter pension plan which is at a distress level 3 rating. Mr. Vaughn then briefly discussed the parameters of the Municipal Minimum Obligation (MMO). Township Manager Stanick stated the Township's MMO for 2019 is \$511,000. Mr. Burns inquired regarding the length of the pension's amortization. Mr. Vaughn stated that it is 11 years. Township Manager Stanick briefly discussed the state aid process, highlighting that the funding from the state is not static and fluctuates as the Township organization grows to meet the future needs of the community.

Township Manager Stanick reported the Township is currently contributing money from its General Fund towards the MMO to make up the funding gap. Township Solicitor Makel sought clarification on the payment structure. For demonstration purposes, Mr. Vaughn reviewed the funding and payment structure of the Fire Pension. Mr. Vaughn continued by discussing ways in which the funding stream and structure could be altered moving forward. First, Mr. Vaughn stated that if the Township were to reorganize the employee benefit structure, the Township's obligations may change. Second, Mr. Vaughn discussed the possibility Township's employee pool experiencing gains and or loses as another variable. Mr. Vaughn highlighted that actuarial estimates are based on anticipated employee turnover, retirement, pay increases, etc. He then briefly discussed the timeline of actuarial calculations. Third, Mr. Vaughn discussed indirect investment risk that may also impact future funding obligations/projects. He discussed PMRS's unique structure, highlighting that they manage the investment risk and mortality risk for pension plans. He continued by reporting that a periodic rate of return evaluation is conducted by its Board. Mr. Vaughn stated the current rate of return on investments is 5.25% highlighting that investment risk is minimized citing the lack of fluctuation within its funding structure. Mr. Burns inquired regarding situations where the rate of return does not meet anticipated metrics. Mr. Vaughn explained that when the rate of return is higher than expected, PMRS distributes a dividend of sorts to its participants. He continued by highlighting that PMRS runs on the faith of its investors citing the economic downturn of 2008 when their accounts could only pay out \$0.81 on every dollar of investment if everyone liquidated their accounts at once. Mr. Vaughn stated that each subsequent year trended upward but highlighted that after the economic downturn PMRS had two rate of return reductions from 6% to 5.5% and then to 5.25%. He highlighted the decreased rates of return lead

to increased financial contributions from the municipalities to meet their pension obligations. Mr. Vaughn reported that a .25% reduction of the expected rate of return typically leads to a 2-3% increase in municipal pension liability. Mr. Burns inquired if another rate of return reduction was possible. Mr. Vaughn stated that reductions are considered by the PMRS Board every two years. Mr. Vaughn highlighted reduced interest rates as a concern, particularly regarding short term investment.

Mr. Weber inquired regarding the different distress level ratings that are assigned to pension accounts. Township Manager Stanick briefly outlined the distress levels as follows: Distress level 0 states that a pension account is at least 90% funded. Distress level 1 states that a pension account is between 70% - 89% funded. Distress level 2 states that a pension account is between 50% - 69% funded. Distress level 3 states that a pension account is funded at 50% or below. Township Manager Stanick highlighted that accounts such as the Township's Non-Uniform and Police Pension plans that are rated at distress level 1 do not face any regulatory scrutiny from the state. He reported that with the Fire Service Pension being rated at distress level 3, there are more stringent requirements set forth by the state put in place to assist in the elevation of the Pension Plan's rating.

Mr. Vaughn reviewed the differences between "young" pension plans and "mature" pension plans. He cited that a young plan typically has younger employees who have less accrued time within the municipality. He reported that young plans may be less conservative due to the extended period for which the plan can adjust and rebound from financial losses. He cited that a mature plan may have more retirees than laborers, or an older employee pool. Mr. Vaughn highlighted that it is essential for a mature plan to be more conservative and closer to being fully funded.

In response to a question from Chair Luketich concerning upcoming retirements, Mr. Vaughn stated that retirements will affect an underfunded pension account in two ways. First, PMRS may request a single lump sum payment that will last a retiree's entire actuarial lifetime. Second, the Pension plan will experience gains and losses. Mr. Vaughn continued by providing an example of an underfunded pension that faced unexpected retirements, citing the unfunded liability led to adjustments in the long-term projections/planning of the account.

Township Manager Stanick reported that the Police Pension plan is the most mature plan. He also highlighted that all three pension accounts pose unique challenges. He stated that Staff will review each Pension this coming budget season. Mr. Vaughn stated that barring an adjustment to a municipality's benefits structure, the MMO structure is designed overtime to bring Pension accounts near full funding due to the amortization of the unfunded obligation. He emphasized that if a municipality sticks with its MMO it will have sound Pension plans funded at an 80% - 90% level.

Township Solicitor Makel inquired if PMRS handled actuarial services in house. Mr. Vaughn confirmed that actuarial services are provided under his organization's umbrella. Mr. Vaughn highlighted the considerable expenses that emanate from providing/procuring actuarial services.

Township Manager Stanick emphasized the need to take a proactive approach in future evaluations of the Pension plans. He reported that every two years the valuations change and can alter projections and future strategies for all the plans. He distributed a spreadsheet of the pension plans to illustrate their current funding levels and projections. Township Manager Stanick reported that moving forward, budgets will reflect pension costs for all three accounts, accounting for state aid and General Fund expenditures that make up the MMO. Mr. Burns inquired regarding the allocation of funds. Township Manager Stanick stated the Township has discretion as to how the MMO is distributed to the Pension accounts. He also highlighted that levels of state aid are subject to fluctuation. Township Manager Stanick concluded by stating that in the future, the Board will need to consider what level of funding each Pension plan should aim for. Mr. Vaughn concluded by highlighting that mature plans should be closely monitored moving forward due to their short-term vulnerability. The Board thanked Mr. Vaughn for his thorough presentation.

7. ADJOURNMENT

Mr. Weber moved to adjourn the meeting. Mr. Burns seconded the motion. The motion passed on a unanimous voice vote and the meeting adjourned at 2:20 p.m.

Respectfully submitted,

Brandon J. Stanick
Township Manager