

ORDINANCE CONCERNING THE GENERAL OBLIGATION PENSION BONDS RESERVE FUND

WHEREAS, in 2021, the Town Council approved the issuance of Pension Obligation Bonds (“POBs”), which allowed the Town to take advantage of historically low interest rates to use municipal bonds to fund all of its Unfunded Actuarially Accrued Liability (UAAL), resulting in a fully funded pension plan and reduced tax liability for taxpayers; and

WHEREAS, when the Town Council approved the issuance of POBs, the Town Council also adopted an ordinance establishing the General Obligation Pension Bonds Reserve Fund (the “Reserve Fund”) to shield the Town from contribution volatility by picking up any year-over-year increases in the Actuarially Determined Contribution (ADEC) of more than five percent; and

WHEREAS, the current formula for determining when the Reserve Fund may be used fails to take into account significant, one time increases in the ADEC caused by investment losses due to unforeseen circumstances like the COVID-19 pandemic; and

WHEREAS, the Town Manager recommends amending the Reserve Fund ordinance to use the increase in the operating budget payment to the Pension Fund from the prior year, instead of the increase in the ADEC payment from the prior year, as the basis for determining when the Reserve Fund may be used to make payments to the Pension Fund.

NOW THEREFORE BE IT ORDAINED BY THE TOWN COUNCIL OF WEST HARTFORD:

Section One. *Article V, Chapter 18 of the Code of Ordinances is hereby amended as follows:*

Article V. General Obligation Pension Bonds Reserve Fund.

§ 18-57 Establishment. There is hereby established the General Obligation Pension Bonds Reserve Fund. The purpose of the General Obligation Pension Bonds Reserve Fund shall be to mitigate potential increases in the [annual appropriation] actuarially determined employer contribution required by § 30-29 to the Pension Plan [(the [“]actuarially determined employer contribution”)] (the “ADEC”) due to less-than-expected asset growth. Earnings on the investment of funds in the General Obligation Pension Bonds Reserve Fund shall be credited and retained in such fund.

§ 18-58 Expenditures. The Town Council may only authorize an appropriation from the General Obligation Pension Bonds Reserve Fund for the following purposes:

A. To offset any [actuarially determined employer contribution amount above a year-over-year increase of 5%] Town Operating Funds contribution amount above a year over year increase of eight percent. Should the portion of the annual ADEC payable from Town Operating Funds increase by more than eight percent from the prior year, the ADEC will be funded as follows: the first eight percent increase shall be funded by Town Operating Funds and any increase over and above the eight percent will be funded by a contribution from the General Obligation Pension Bonds Reserve Fund. Town Operating Funds is defined as any Town funding source other than the General Obligation Pension Bonds Reserve Fund.

[B. In the fiscal year following the issuance of general obligation pension bonds, to offset any pension liability amount above a year-over-year increase of 2 ½%. For the purposes of this subsection, “pension liability” shall mean the sum in any given fiscal year of the debt service for any outstanding general obligation pension bonds and the actuarially determined employer contribution.]

[C] B. To pay debt service on any outstanding general obligation pension bonds if stochastic analysis conducted by the actuary appointed by the Pension Board shows that, following such appropriation from the General Obligation Pension Bonds Reserve Fund to pay debt service on the bonds, there is less than a five-percent chance that the funded ratio of the Pension Plan will be less than one hundred percent [100%] at any time during the term of such bonds. The funded ratio of the Pension Plan shall be measured based on the actuarial methods and assumptions used for purposes of determining the [actuarially determined employer contribution] ADEC for the fiscal year in which the appropriation from said General Obligation Pension Bonds Reserve Fund occurs.

§ 18-59 Appropriation of surplus funds upon retirement of debt. Whenever there are no general obligation pension bonds or any bond refunding such bonds authorized or outstanding, the Town Council may make appropriations from the General Obligation Pension Bonds Reserve Fund for any purpose.

§ 18-60 Replenishment of General Obligation Pension Bonds Reserve Fund. In such years where the (a) contribution of Town Operating Funds to the Pension Trust decreases from the prior year and (b) the Pension Plan’s funded ratio is less than one hundred fifty percent, the Town will transfer to the General Obligation Pension Bonds Reserve Fund the difference between the prior year contribution of Town Operating Funds and the contribution of Town Operating Funds required for the current year. For this purpose, the funded ratio is measured as of the valuation of the ADEC for the fiscal year in question.

(LEDWITH)
December 12, 2023

ADOPTED BY THE WEST HARTFORD TOWN COUNCIL ON JANUARY 9, 2024