

Members

Rep. Lawrence Buell, Chairperson
Rep. Woody Burton
Rep. Thomas Kromkowski
Rep. Win Moses
Sen. R. Michael Young
Sen. Gary Dillon
Sen. Allie Craycraft
Sen. Larry Lutz
Steve Meno
Kip White
Gary Lewis
Randy Novak



PENSION MANAGEMENT OVERSIGHT COMMISSION

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MEETING MINUTES¹

Meeting Date: September 5, 2006
Meeting Time: 10:00 A.M.
Meeting Place: State House, 200 W. Washington St.,
Room 404
Meeting City: Indianapolis, Indiana
Meeting Number: 2

Members Present: Rep. Lawrence Buell, Chairperson; Rep. Woody Burton; Rep. Thomas Kromkowski; Rep. Win Moses; Sen. R. Michael Young; Sen. Gary Dillon; Sen. Allie Craycraft; Sen. Larry Lutz; Kip White; Gary Lewis; Randy Novak.

Members Absent: Steve Meno.

The Chair, Representative Larry Buell, called the meeting to order at 10:05 a.m. Representative Buell asked if there were any changes to the minutes of the August 23rd meeting. There were no changes.

The Chair called upon Mr. Doug Todd of McCready & Keene, actuaries for the Police and Fire Funds and the Pension Relief Fund. Mr. Todd discussed Senate Resolution 27, which required the Pension Management Oversight Commission (PMOC) to identify additional funding sources for the Pension Relief Fund. Mr. Todd provided the PMOC with Exhibit A, Discussion Outline for his presentation on the Pension Relief Fund. Mr. Todd said that before 1977, the 1925 Police Pension Fund, the 1937 Firefighters' Fund, and the 1953 Police Fund, commonly referred to as the Old Funds, were funded on a pay-as-you-go basis with no prefunding. The municipalities would simply pay the benefits as they came due. Over time, this proved to be very expensive for the municipalities.

In 1977, the General Assembly established the 1977 Police and Firefighters' Pension and Disability Fund. This fund was actuarially prefunded and included those employees hired or

¹ Exhibits and other materials referenced in these minutes can be inspected and copied in the Legislative Information Center in Room 230 of the State House in Indianapolis, Indiana. Requests for copies may be mailed to the Legislative Information Center, Legislative Services Agency, 200 West Washington Street, Indianapolis, IN 46204-2789. A fee of \$0.15 per page and mailing costs will be charged for copies. These minutes are also available on the Internet at the General Assembly homepage. The URL address of the General Assembly homepage is <http://www.in.gov/legislative/>. No fee is charged for viewing, downloading, or printing minutes from the Internet.

rehired after April 30, 1977. The municipalities contribute 21% of the salary of a first class officer, while the officer contributes 6% of their salary. Mr. Todd said that the municipalities were paying for two generations of police and fire retirement benefits. The General Assembly also established the Pension Relief Fund (PRF) in 1977. The major sources of revenue for the PRF consist of a dedicated portion of cigarette and alcohol taxes, investment income on invested funds, and (since 1990) lottery revenue. Cigarette and alcohol taxes have furnished income of between \$30 M and \$40 M each year, while investment income provides \$15 M to \$20 M per year. Lottery revenues deposited into the PRF have totaled \$274.7 M, as of June 30, 2005. Mr. Todd said that the General Assembly has stepped in to help out many times. In 2001, the formula for distribution of the PRF was changed to allow two distributions, along with the creation of the Delayed Retirement Option Plan (DROP) and the 50% guarantee to local units. In 2006, the General Assembly extended the 50% guarantee and the DROP to 2008.

Mr. Todd next distributed Exhibit B, Distribution of PRF Benefit Payments Under the Current Statute, and Exhibit C, Distribution of PRF Benefit Payments with Increased Annual Revenue of \$10 M. Mr. Todd said that the salary scale on the chart assumes an annual 4% increase, while the actual is between 3% and 3.5%. In response to a question from Representative Moses, Mr. Todd said that an increase of \$20 M per year would eliminate the gray area of the chart completely. The gray area represents the shortfall of the PRF. In response to a question from Senator Dillon, Mr. Todd said that a lump-sum payment of \$211.4 M would eliminate the gray area entirely. The \$211.4 M is the present value of the total amount of the gray area.

The Chair called upon Mr. Matt Brase, representing the Indiana Association of Cities and Towns (IACT). Mr. Brase commended the PMOC for its funding thus far. He commended Senator Harrison for SR 27. Mr. Brase distributed a memorandum, Exhibit D, which identified potential funding sources for the PRF (for example, additional lottery funding, along with an increase in cigarette and alcohol funding). Mr. Brase said that he appreciates the past funding, and he sees a light at the end of the tunnel. In response to a question from Senator Young, Mr. Brase said that he thought riverboat funding was used for pension relief. Senator Young requested a report on the use of riverboat revenues. In response to a question from Senator Dillon, Representative Buell said that the legislature is involved with the funding of local pensions because they were created by the legislature and involved essentially unfunded mandates. Representative Moses, former Mayor of Ft. Wayne, explained the Old Plan from a mayor's perspective.

Mr. Tom Miller, representing the Indiana Professional Firefighters Union of Indiana, along with Mr. Tom Hanify, representing the Fraternal Order of Police in the absence of Mr. Leo Blackwell, agreed with Mr. Brase's comments and said that the continued effort by the legislature is chipping away at the problem. Both men said that they support leaving the 50% guarantee and finding PRF funding to close the gap.

Mr. Tom Miller described the history of the Old Funds. He said that the funds were initially supported by a Mill tax until the 1930s. Mr. Miller said that one more piece of funding for the PRF will put the issue to bed. In response to a question from member Mr. Lewis, Mr. Miller said that new hires vest with 20 years, with benefits available at age 52.

The Chair called upon Mr. Adam Brown of the Legislative Services Agency to comment on additional funding for the PRF through increased cigarette and alcohol taxes. Exhibit E was distributed to the PMOC and shows the impact of increasing the Cigarette Tax and the Alcohol Tax by one cent and ten cents for each product. Mr. Brown said the data assumes adjustment of the vendor's discount. The additional amount of annual revenue estimated from the one cent increase in the Cigarette Tax amounted to \$5.1 M, while a ten cent increase would generate \$44.9 M annually. For beer, liquor, and wine, a one cent increase would generate

approximately \$1.4 M annually, while a ten cent increase would raise about \$13.6 M annually. In response to a question by Senator Young, Mr. Brown explained the vendor's discount.

Representative Buell recognized Mr. Jim Landers of the Legislative Services Agency to comment on additional funding for the PRF through increased wagering taxes. Mr. Landers distributed Exhibit F, which shows the increased yield from additional wagering taxes. The memorandum provides estimates of the yield from two different rate increase scenarios for the Riverboat Wagering Tax. The rate increase scenarios and estimated revenue yield from each are summarized below.

(1) Impose an additional 1% tax on annual casino adjusted gross wagering receipts (AGR) exceeding \$150 M. This would increase the current top marginal Wagering Tax rate from 35% to 36%. The annual yield from this change is estimated to total about \$11 M.

(2) Impose an additional 1% tax on all annual casino AGR. This would increase each tax rate in the five-tier Wagering Tax rate structure by 1%. The annual yield from this change is estimated to total about \$26 M.

The estimates are based on the December 14, 2005, Revenue Technical Committee forecast of casino AGR in FY 2007 utilized to generate the Wagering Tax forecast. It is important to note that the actual yield from the additional tax rate could potentially be lower than estimated to the extent that the additional taxes cause casinos to reduce services, amenities, marketing, and the like resulting in lower AGR growth or a decline. The table below summarizes the current graduated Wagering Tax structure.

Annual AGR (July 1st to June 30th)	Incremental Tax Rate
\$0 to \$25 M	15%
\$25 M to \$50 M	20%
\$50 M to \$75 M	25%
\$75 M to \$150 M	30%
Over \$150 M	35%

In response to a question from Senator Young, Mr. Landers said that after the last rate increase, revenues went up, but this was coupled with dockside gaming.

Representative Buell addressed the next topic, which was SR 36, the transfer of 1977 Fund members to the Public Employees' Retirement Fund. Staff distributed Exhibit G, Preliminary Draft (PD) 3134. The PMOC discussed PD 3134, with questions arising about how many would be affected by this proposal. Colonel Tom Parker of PERF commented that while he did not know the specific number, he thought it would be low, perhaps between five and ten statewide. Mr. Brase was recognized to speak and said that IACT supports PD 3134. Senator Dillon asked if this proposal would encourage others to do the same thing. In response, Mr. Tom Miller said that PD 3134 would allow smaller communities to hire officers from larger departments who possess much experience. Staff commented that they would work with PERF to determine the number of people currently affected by this proposal and report to the PMOC. The Chair called for disposition of PD 3134. PD 3134 was recommended unanimously, 11-0, for introduction in the 2007 Session of the General Assembly. The author of PD 3134 is to be determined.

The Chair addressed the Department of Correction (DOC) supplemental pension benefit. PD 3135 (Exhibit H) was distributed to the PMOC. Mr. David Donahue, Commissioner of the DOC, told the PMOC that this was a self-funded program set up to provide a supplemental pension benefit for those DOC employees working in a hazardous duty position. The new plan would be administered by PERF. In response to a question from Senator Dillon, Mr. Donahue said that PERF rules would apply regarding retirement. In response to a question from Representative Kromkowski, Mr. Donahue said that the DOC has the funds from savings to fund the first two years at \$7 M each year. After that, the DOC will be responsible for funding. Mr. Donahue said that when people retire, the DOC will use the personnel savings to help fund the program. In response to a question from member Mr. Lewis, Ms. Mary Beth Braitman of Ice Miller and representing the DOC provided the following salary replacement percentages for the funds listed: PERF, 33%; State Police, 77%; Conservation Officers, 55%; and municipal police and fire, 70%. Senator Dillon inquired about money for salaries. Mr. Donahue said that there will be \$20 M for salary increases to parallel the \$14 M for pensions. Ms. Braitman next discussed a proposed amendment to PD 3135. The proposed amendments added clarity to PD 3135. The amendments were as follows: (1) page 2, line 46, *and is the trustee of the fund*; (2) page 4, line 9, after normal contribution, *and any amortization contribution*; and (3) page 5, line 21, remove the period at the end of the sentence and insert *only for service in a hazardous duty position*. In response to a question from Mr. White, Mr. Donahue said that the \$14 M will come from savings from third-party administration of food service and other services plus training savings.

The Chair requested disposition of PD 3135, along with the proposed amendments. Both the amendments and PD 3135 were adopted unanimously. Representative Buell informed the PMOC that he would author PD 3135, as amended, in the 2007 Session of the General Assembly.

Representative Buell called upon Mr. Ernest Yelton, Executive Director of the Indiana Gaming Commission. Mr. Yelton said that SEA 626 of the 2005 Session placed the Gaming Agents in the Conservation and Excise Officers Retirement Fund (C&E Fund). Mr. Yelton proposed the following changes to the C&E Fund: (1) increase the employer contribution rate to between 16% and 20.5%, and fund the increase with an additional \$5 in the Boat License Fee; (2) the ability to transfer service from the State Police, the 1977 Fund, and PERF to the Conservation Officers Fund; (3) change the benefit formula, reducing the age from 60 to 55; (4) use PERF standards for disability; and (5) increase the benefit percentage. Representative Buell instructed the staff to work on a PD.

The Chair said that the next meeting will be held on September 18 at 10:00 a.m. in Room 404.

The Chair adjourned the meeting at 11:40 a.m.