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Asset Manager Wants SEC to Probe Providence Pensions.

Controversy, Intrigue, Investigations Surrounding 38 Studios Investigations are Far from Over
A Rhode Island asset manager has asked the U.S. Securities and Exchange Commission to investigate the pension fund of capital city Providence after an accounting firm acknowledged a \$62 million spike in its unfunded liability.

“I did file an official complaint,” said Michael Riley, co-founder of investment firm Coastal Management Group LLC in Narragansett, R.I. “My feeling is that this has been going back a long time. I think it’s huge.”

Riley, who ran for Congress in 2012, said he noticed what he considered irregularities while participating in a Stanford Graduate School of Business class. He questions how the city’s handling of municipal bond documents and financial disclosure statements, and also said the shortage could run up to \$200 million.

City and state officials say the problem reflects timing and cash flow, not mismanagement or chicanery.

“All would agree that the timing of the city’s contributions to its pension plan is not the norm or desirable,” state Auditor General Dennis Hoyle wrote Riley. “However, my perspective is that the city has appropriately accounted for these events consistent with generally accepted accounting principles.

“I don’t believe it is fair or appropriate to characterize the city’s accounting for this matter as a ‘scam and fraud.’ My point is not to endorse the city’s practice of making its pension contribution subsequent to year-end. However, I believe it is important not to mischaracterize the situation unfairly.”

Hoyle said he would continue to work with city officials to explore options of making contributions “on a more normal and frequent basis” during the fiscal year.

A \$62 million payment to the pension fund is due June 30. Providence traditionally has been making such payments in October.

Two months ago, accounting firm Segal Group Inc. told the City Council’s finance committee that an actuarial asset method change and to a lesser degree a change in rate-of-return assumptions increased the unfunded liability of the Employee Retirement System of the City of Providence by \$62.2 million. Segal officials at the time said the system’s unfunded liability stood at \$894.3 million as of July 1, 2014.

Segal officials advised the city to begin making its payments in June.

“We will not be able to do this immediately, but we will make sure it happens. We’re working with our actuary,” said Evan England, press secretary to Mayor Jorge Elorza. “We’ve done everything to be open, transparent and proactive on this.”

According to England, Elorza's administration is working to bring the city's long-standing pension payment practices into compliance with new reporting standards, notably the Governmental Accounting Standard Board's rules 67 and 68. In consultation with Segal, said England, the administration is developing a three-year plan that phases in periodic pension contributions so the city can complete its actuarially required contribution, or ARC, payment by June 30.

England called the late payments "a not-a-best-practice decision made a decade ago."

Elorza succeeded Angel Taveras in January, after Taveras vacated his seat in an unsuccessful run for governor.

Segal replaced Buck Consulting Inc. after the city fired Buck and sued it early in 2013, accusing the firm of miscalculating \$700,000 in savings. Segal told council members in April that the plan's funded ratio has dropped to 29% on a market-value basis and 27.4% on an actuarial basis.

Last year Segal said Providence shouldn't count future pension contributions as part of current assets. "We recommend that future valuations exclude discounted contributions from reported assets," the firm said in mid-2004. "This does not affect the determination of the contribution requirement, which is based on projected liabilities and assets."

City officials at the time - and shortly after criticism from Riley - rewrote bond documents to include Segal's concerns.

In May, Local 799 of the International Association of Firefighters said it would sue the city, alleging misreported pension funds and seeking immediate replenishment of the \$62 million.

"Our concern is that this practice dates back farther than we originally understood when the issue came to light, and that our members may suffer - or may have already suffered - a loss because of this unorthodox and potentially illegal practice," union president Paul Doughty said at the time.

As of Friday, though, no evidence existed of such a lawsuit filed. A message seeking comment was left with Doughty.

Separately, the union this week asked Rhode Island Superior Court to block Elorza's plan to restructure the department until both sides can agree on payment to firefighters for working 14 extra hours each week.

Providence in 2012 crafted a series of pension and health care benefit reductions after Taveras likened the situation to a "Category 5 hurricane" and said the city was headed to bankruptcy.

The new package reduced the city's costs by suspending cost-of-living adjustments for retired pensioners for 10 years and transferred retirees to Medicare. City officials at the time estimated nearly \$15 million of annual savings in pension contributions.

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