TO: Bob Kiss, Mayor

Jeanne Collins, Superintendent of Schools

FROM: Jonathan P.A. Leopold, Jr.

DATE: September 24, 2011

RE: Burlington Retirement System and School Department Employees

I am writing to provide information and certain recommendations relative to the issue of the participation and funding of non-teacher employees of the School Department enrolled in the Burlington Employees Retirement System. As you know, in the past six years the number of employees and the magnitude of the related payroll of the School Department have increased significantly. In addition, changes to the statutes governing and funding education in Vermont and the challenges faced by the retirement system over the past eleven years have resulted in a discussion about the restructuring of the financing for Burlington School Department (BSD) employees participating in the Burlington Employees Retirement System (BERS).

Background

The BERS was established in1954 to provide retirement benefits for City employees. To the best of my knowledge, non-teacher employees of the School Department have always participated in the BERS. Sworn officers of the Police and Fire Department are designated as "A" class employees and their sole retirement benefit is from BERS. All other City employees are designated as "B" class employees and receive a benefit directly from BERS in addition to participating in the Federal Social Security program. The employer's share of the social security benefit (FICA) is paid by the City to the retirement system.

The costs of the retirement benefit for municipal employees who are in non-General Fund departments or divisions are paid from the revenues of their respective funds. Thus, for example, the annual expenses for the retirement program for employees of the Burlington Electric Department (BED) are paid from the revenues of the BED. The funding of such expenses is consistent with proper fund accounting that the respective fund in which the employee is employed bears the cost of the employee's retirement benefit.

The annual retirement contribution expense for municipal General Fund employees is funded by a dedicated tax rate item which is set annually by the City Council in an amount sufficient to raise funds for the costs of the annual contribution to BERS and FICA for General Fund employees. Currently, this dedicated tax rate item is also funding the costs for the annual contribution to BERS and the FICA payment for both the Schools Department's General Fund and non-General Fund employees.

The historic practice of the City to pay the BERS and FICA expense of non-teacher employees of the Burlington School Department (BSD) with the dedicated tax rate item existed prior to 1981 and, to the best of my knowledge, from the inception of the participation of School Department employees in the BERS. Prior to the adoption of the current state-wide funding program and statutes (Act 68), this practice was appropriate. However, it should be noted that it confused the budget and accounting of BSD expenses since the cost of BERS for BSD employees was budgeted and accounted as a City expense and did not appear in the BSD budget or audited financial statements. The small number of employees and small payroll mitigated the effects of this funding mechanism. Historically, the costs associated with School employees in the BERS were a small percent of the total BERS costs.*

Over the past decade, four significant changes have led to a re-examination of this system for funding the BSD's non-teacher employees' retirement benefits. First, the adoption of the state-wide funding of education from a state-wide property tax under Act 68 is inconsistent with this traditional practice. Under this program, school districts are required to fund all School Department general expenses from the school tax rate. Schools in so-called wealthy property tax towns are prohibited from utilizing alternative funding mechanisms for these basic expenses. In addition, due to the income sensitivity provisions of this state-wide property tax program, there are significant income sensitivity provisions to alleviate the burden of school taxes on moderate and low income homeowners. These income sensitivity provisions do not apply to non- school property taxes.

A second significant factor over the past ten years has been the dramatic increase in the costs of the annual contribution to the BERS. This increase in costs has been driven by the significant expansion of retirement benefits in 2000. The financial impact of the expansion of benefits in 2000 was exacerbated by the significant losses in BERS investments in the 2001-2003 and 2008-2009 down turn in financial markets. This issue is discussed more fully in the Report of the Task Force on the Burlington Employees Retirement System issued in August 2007.

The third major factor was the significant increase in the number of School Department employees participating in BERS and the related payroll increase associated with these employees. In 2006, the City renegotiated the benefits for both A and B class employees. One of the changes negotiated was that the B class employees would contribute directly to the costs of BERS above and beyond the employee's FICA contribution. When the School Department implemented the deduction of an employee contribution, it identified a significant number of employees not previously identified as participating in BERS.

The increase in benefits in 2000 and the losses of BERS investments in the two downturns over the decade have resulted in a dramatic increase in the property tax rate and

- *BSD teachers participate in the State of Vermont Teachers Retirement Program. Historically, teachers represented a very large percentage of department expenses.*

the burden on property taxpayers associated with the City's retirement program. These increases were exacerbated by the significant increase in costs associated with School employees. Currently, nearly one quarter of the total retirement system costs on the property tax rate are for benefits for School Department employees.

The fourth major factor is that over the past six years the City has sought to negotiate changes in retirement benefits granted to employees in 2000. in order to make the retirement system more sustainable, Previously, retirement benefits have historically been increased and have not been subject to collective bargaining. The City Council determined the benefit design of the BERS and historically all B employees had the same benefit plan regardless of the bargaining group or department.

As the City sought a reduction in benefits, the design of benefits became subject of collective bargaining. This new development highlighted the fact that the City Council did not oversee or have authority with regard to collective bargaining for School Department employees.

Thus, the City Council, which sets the tax rate for the retirement system, did not in any manner control the cost drivers for benefits associated with the BSD employees. This anomaly was particularly apparent due to significant recent payroll increases in the BSD as the Department implemented a livable wage standard with certain bargaining units. Further, the need to maintain similar benefits for all B class employees has become increasingly difficult as the BSD, rather than the City, is now responsible for bargaining the nature of retirement benefits for School employees.

Over the past several years, the issue of the funding for retirement benefits for BSD employees has been discussed with the Board of Finance and the BSD and City administrations. In June, 2010, George Cross, a consultant to the City Council, provided a report on the FY 2011 budget with certain recommendations. This report identified the issue of the financing of retirement benefits for non-teacher employees of the BSD as contrary to the State statutes (Act 68) governing the state-wide education property tax. The Cross Report also detailed the potential savings to Burlington taxpayers for the property tax burden associated with the expense of these benefits if they were funded through the School Department and the tax rate item. I have attached the relevant sections of the Cross report as attachment A.

The practice of funding the expense of the benefits for the BSD employees is at least thirty years old and predates the Vermont State statutes governing the state-wide property tax. Thus, there is an argument that this process, while inconsistent with the current state law, is legal. However, the Cross Report correctly notes that there would be a savings to Burlington taxpayers if these costs were funded as BSD expenses instead of funding through

the non-school tax rate item for the BERS. In addition, it is more accurate and transparent for all educational expenses to be reflected in the school tax rate, as opposed to the municipal tax rate. As a result, the BSD and City are discussing whether these expenses should be funded through the School Department budget and tax rates.

Rationale for Change

I support the recommendation of the Cross Report that the expenses and funding for the retirement benefits (both BERS and FICA) should be changed from the current system such that the expense and financing is assigned to the BSD. There are three major reasons to effect this change:

1. Income Sensitivity

Due to the income sensitivity benefits associated with the education property tax under Act 68, the tax burden for City taxpayers for the expense for the retirement benefits for BSD employees would be reduced. Mr. Cross estimated that this burden would be reduced by between 44% and 50% for households with annual income under $80,000. The current funding mechanism for BSD employees does not provide for income sensitivity relative to retirement system property taxes and thus represents an unnecessary additional tax burden for Burlington taxpayers.

2. Budgeting and Accounting

Currently, the budgets adopted by the School Board and approved by voters do not include these retirement costs. Similarly, the accounting of School Department finances does not fully reflect these expenses. It would be preferable that budgets and financial statements include all costs associated with BSD employees to provide a more accurate and complete presentation of all costs associated with the BSD.

3. Accountability

The primary factors affecting the costs of retirement benefits for BSD employees are the compensation for employees and the design of benefits. Currently, the BSD is responsible for determining both the compensation and benefit design for BSD employees. However, it is the City Council which establishes the tax rate for the retirement system to finance the costs of benefits for BSD employees. Accountability and good government practice would suggest that the governing body responsible for determining the nature of the expense should also be responsible for funding that same expense.

Based on the above considerations, I recommend that the City and BSD change the current system of funding for BSD employees to include this cost in the budget and financial statements of the Department and establish these costs as part of the BSD

education expense to secure the income sensitivity tax relief for the property tax burden associated with these expenses and to align the authority for determining the amount of this expense with the responsibility for funding the expense.

Legal Issues

In November, 2010, I wrote to the Board of Finance with copies to the BSD administration regarding the issue of BSD employees' retirement funding (Attachment B). Pursuant to a discussion with the Board of Finance I referred the memo to Ken Schatz as City Attorney and Joe McNeil, as attorney for the School Board and Department, for a review of the statutory issues regarding the restructuring of the current system to implement the recommendation of the Cross Report to transfer responsibility for funding the retirement benefits for BSD employees from the City to the BSD. There are at least two major legal issues to be considered.

First, the City Charter and ordinances would need to be revised to allow for the BSD to have appropriate authority relative to the negotiation and design of retirement benefits for BSD employees. Issues to be considered would include the respective roles and authorities of the City Council and the School Board, the authority for adoption of ordinances and their resolutions to govern the system and the role of the Retirement Board, as well as the issues identified in this memo. This list is not exhaustive and the attorneys will undoubtedly identify other issues and concerns. In general, I would recommend that the simplest approach, at least for an initial interim period, would be to retain the current structure of authority except to recognize and establish the School Board and BSD authority to bargain the nature and design of benefits for BSD employees and to establish a separate funding mechanism for the BSD to fund the costs for BSD employees.

The second major legal issue to be addressed is the funding mechanism by which the BSD and School Board will fund the costs associated with BSD employees. The State statutes governing education property taxes may require that these costs be included within the single budget and proposed tax rate for the BSD. However, I believe it would be preferable to establish a separate tax rate item for the retirement benefits of BSD employees in a manner similar to the separate tax rate for City employees. This separate tax rate item should be defined as subset of the school tax rate for purposes of Act 68 funding and income sensitivity. This latter approach would be preferable from a financial perspective since it better ensures for the financial integrity of the BERS.

Currently, the Retirement System tax rate is set annually by the City Council in an amount sufficient to fully fund the annual costs of the system. The tax rate item is not subject to a cap or limit and does not require annual voter approval. Absent such a limit or a requirement for voter approval, the City Council has the authority to raise sufficient taxes to ensure that the annual expenses for the system are fully funded. This authority enables the Council to better provide for the financial stability and integrity of the Retirement System.

Ideally, the BSD and School Board would have similar authority to establish a tax levy that would ensure that the annual costs of the Retirement System were fully funded. The current restrictions on the BSD tax rate and property tax revenues to be generated pose a serious limitation on the School Department and Board's ability to raise sufficient revenue to fund the cost of retirement benefits for the School employees. If it is not possible to establish a separate School tax rate that would be similar to the City's tax rate, then the ability of the BSD to fully fund the annual costs of retirement benefits would be subject to the tax rate ceiling and voter approval. Such a mechanism would be problematic from the perspective of ensuring the financial health and integrity of the Retirement System.

I recommend that the City and BSD secure appropriate legal advice on this matter as soon as possible. As noted above, if it is consistent with State statute it would be preferable, I believe, to establish a tax rate item similar to the City's which would be set as necessary to provide for full funding of the annual costs of retirement benefits. An amendment to the City Charter to accomplish this purpose would also need to be written in a manner to complement the State education tax requirements to qualify for income sensitivity adjustments.

Benefit Design and Collective Bargaining

As noted above, the effort by the City over the past decade to reduce the benefits provided for employees under BERS has led to the establishment of the practice of bargaining the benefit design with employee unions. As a consequence, the BSD and School Board are responsible for negotiating the benefit design for BSD employees represented in bargaining units.

Interestingly, benefits for non-union employees are not subject to collective bargaining. Arguably, the City Council could still define and establish the benefit plan design for non-union School Department employees. However, I would recommend the School Board and BSD have responsibility for all School employees to establish a more consistent alignment of authority and responsibility.

As you know, the bargaining process for City employees has been protracted and difficult as the City has sought additional benefit changes beyond those achieved in 2006. The goal of further changing the benefit design is driven by the increasing costs associated with the current benefits and the need to stabilize and hopefully reduce these costs. The focus of City bargaining has been the benefits for employees who began service with the City prior to January 1, 2006. Those employees substantially retained the benefit design of 2000 which has proven to be problematic.

The report of the Task Force on the Burlington Employees Retirement System provides full detail and discussion of the issues and considerations relative to the benefit design problems of BERS and is appended as attachment C. The most significant and problematic issue continues to be the early retirement provisions which dramatically and unevenly increased benefits for certain employees who choose an early retirement.

In the most recent bargaining with the City AFSCME union, the City achieved certain concessions relative to this early retirement provision. It is essential that the School Board and BSD negotiate a similar or hopefully more effective modification to the early retirement provisions for BSD employees. It may be helpful to review with the BSD administration the City's position and rationale in the AFSCME negotiations.

There are several other issues which the BSD and City need to address which may or may not be subject to collective bargaining. These issues include the following:

1. BERS eligibility and limited service;
2. Benefits for part-time employees;
3. Benefits for employees transferring in or out of BSD; and
4. Service credit for BSD employees identified in FY 2007.

Ideally, these issues should be resolved in a manner that is complementary to current City policy and/or developed jointly with the City to ensure compatibility.

Limited Service Positions

Currently, the City has two classes of employee positions. There are regular employees with full benefits including retirement benefits and limited service employees who do not participate in BERS and only receive the social security benefit (FICA). The category of limited service positions was created to recognize that certain city employee positions would not be eligible to participate in BERS. Typically, these are positions which are expected to be temporary and not last for more than three years. This would include positions created and funded under grants or short term programs.

The purpose of creating limited service positions is not to establish a different class of employees with fewer benefits but rather to recognize that certain positions are not expected to exist for a sufficient period for employees to become vested and to obtain retirement benefits. It is recommended that the School Department evaluate the appropriateness of establishing such a category of position to limit the participation of employees in temporary or short term positions such that it is unlikely the employee will become vested in the System.

Part-Time Employees

A second issue which the City and BSD should address jointly is the status of part time employees who significantly increase the number of hours worked from the last three years of their employment with the City or BSD. Currently, employees must work a minimum of 1,200 hours in a year to qualify for participation in BERS. The required minimum hours to be worked represent nearly 60% part-time service over the twelve month period.

The benefit design of BERS is a typical defined benefit plan wherein the retirement benefit awarded to an employee is based on a calculation of the number of years of service multiplied by an annual accrual factor multiplied by the average of the three highest years of annual compensation (AFC). Typically, a part-time employee's benefit would reflect the accrual rate multiplied by the number of years of service multiplied by the AFC for the part-time employment. In effect, the years of part-time employment are adjusted automatically by the equivalent of the part-time compensation.

However, if an employee on part-time status becomes a full-time employee for three or more years or significantly increases the amount of hours worked annually, the AFC of the accrued years would reflect a higher level of compensation consistent with full time work and would thus not offset the part-time calculation of the years worked in part-time status. For purposes of illustration, consider the following hypothetical benefits for two employees. Employee A works part-time, 60%, for 23 years in a position with a constant level of compensation of $24,000 for the final three years. The retirement benefit for Employee A would be $7,728 a year.

Employee B works for a total period of 20 years in the same position. However, for the final three years of employment, Employee B becomes full time in the same position and receives a full time salary of $40,000. The annual retirement benefit for Employee B is $11,200 or 45% more than Employee A.

These benefits are based on the following calculation:

	Accrual Rate		Years of Service		AFC		Benefit
Employee A	1.4%	x	23	x	$24,000	=	$7,728
Employee B	1.4%	x	20	x	$24,000	=	$7,728

Based on 23 years of service at 60% part-time status, Employee A has worked the equivalent of 13.8 years. Employee B has worked the equivalent of 13.2 years based on 17 years at 60% and three years at full-time status. Thus, Employee B has actually provided the City 4% **less** work years than Employee A, but would receive a retirement benefit 45% greater.

The relatively fewer number of part-time employees in previous years reduced the likelihood that the problem in the above illustration would occur. However, with the significant increase in part-time employees due to the expanded number of BSD employees participating in BERS, the likelihood of this problem occurring has significantly increased.

The problem illustrated above not only creates a significant disparity and unfairness in the benefits provided employees, it also provides a potential for a significant unfunded liability for the BERS. The 45% higher benefit provided to Employee B represents an unfunded liability to the extent that the City and/or the BSD did not contribute funds annually to BERS for Employee B's retirement benefit consistent with the increase in benefit based on the final three years of service at a full-time status.

Finally, it is also noteworthy that the anomaly illustrated above also has the potential to lead to other inequities in the System. The ability of a part-time employee to significantly increase the hours worked and the amount of final compensation for determining the retirement benefit is analogous to the problem in other retirement systems where employees are allowed to include overtime in the calculation of compensation and employees incur a very large amount of overtime in the final years of service to inflate the retirement benefit.

I strongly recommend that the City and BSD move quickly to address the potential problems associated with retirement benefits for employees with significant variation in the part-time status of some portion of their employment with the City or BSD. I would recommend that the City and BSD adopt a similar standard to adjust each year of service to be factored by the actual percentage of employment service.

Thus, an employee record for a year of service at 60% part-time status would be credited as a 6/10 of one year of service. Concomitantly, the amount of compensation to be credited for calculation of average final compensation would be the level of equivalent compensation for full-time status. Thus, an employee working 60% for $24,000 would

receive a compensation calculation of $40,000. This adjustment of average final compensation and years of service based on this approach would result in a consistent and equivalent benefit for employees with similar total effective service to the City with different periods of part-time service over the term of their employment.

Benefits for Employees Transferring In or Out of BSD

A third issue which the BSD and City should jointly resolve is the status and benefit for employees who transfer from different bargaining units and thereby qualify for different benefits. Currently the benefit design for employees in different bargaining units is relatively similar. However, there are certain differences and I anticipate that the differences in benefits will increase rather than diminish. The City has recently resolved how to determine benefits for employees who have returned to service and have served the City at different times during which there were different retirement benefits provided. A similar problem will occur as the benefit design between the BSD and City and potentially between different bargaining units of both the City and BSD create different retirement benefits and early retirement provisions. This will also be an issue for employees who move from a bargaining unit into a non-union position.

I think it is unlikely that the BERS will revert to a uniform benefit design for all B class employees. Currently, the differences between various bargaining units are minor and the primary difference is the evolution of benefits over a period of time. However, I anticipate that the System will become increasingly varied in the benefits provided to City and BSD employees. I would recommend that the City and BSD adopt a joint policy to take the benefit earned during different periods in different benefit design categories as discreet benefits to avoid employees migrating at the end of their career to the bargaining unit or department which has the optimum benefit plan.

Service Credit for BSD Employees Identified in FY 2007

As noted above, the number of BSD employees identified as participants in the BERS increased significantly in 2007 as the BSD implemented a payroll contribution for BSD employees. The FICA and the BERS ARC increased significantly as the number of these employees and their associated payroll increased.

Many of these employees had significant years of service accumulated prior to their identification as BERS eligible employees. If the BERS credits these employees with the years of service prior to their identification as eligible members, it creates a significant unfunded liability since the City did not contribute the ARC in years previous to the

identification of these employees. This unfunded liability associated with BSD employees will be significantly greater than the overall unfunded liability for BERS and will affect the ARC for BSD employees as discussed further below.

The BSD and City should review the eligibility of the employees identified in 2007 and determine whether to credit the prior years of service previous to their identification.

Property Tax Support for Non-General Fund School Employees

Currently, it appears as though retirement item property taxes are funding the FICA and retirement benefit for all non-teacher BSD employees. Recent listings of BSD employees and the funding for their compensation indicate that a substantial number of employees and percent of total payroll are for employees and positions funded through grants and special revenue.

Historically, property tax revenues for retirement have exclusively funded the FICA and BERS annual contributions for municipal General Fund employees. As noted above, the retirement expense associated with non-General Fund employees has been paid from the appropriate revenue source funding the employee's salaries or wages. This approach is appropriate with both established budgeting and accounting standards.

It is conceivable that property tax derived revenues could be used to fund these or other expenses of special revenue funded employees if such support is recognized, budgeted and accounted for as "matching" funds. The appropriateness of this approach for special revenue fund employees should be reviewed with City and BSD auditors. In addition, the City Attorney should review and opine whether the use of such funds in this instance would be appropriate with the intent of the statutory authorization for the setting of the Retirement System property tax rate. The concern would be whether it would be appropriate to use these dedicated tax rate revenues as a "match" for grants or a contribution to a special revenue fund in contravention of the implied intent that these funds be used to fund the retirement expense of General Fund employees. I would recommend that this issue be reviewed by and with the auditors and City Attorney and be resolved prior to the setting of the FY13 property tax rates.

Determining the Annual Contribution Requirement for BSD Employees

Currently, the actuarial calculation of the annual required contribution (ARC) to the Retirement System is developed by Buck Consultants based on personnel and payroll data provided annually by the City. The City receives an annual actuarial report which covers

the basic information elements, data and policies to determine the ARC. The most recent report for the year ending June 30, 2010 was used to determine funding for the FY 2012 tax rate and budget and is appended here as Attachment D.

The actual ARC determination is delineated into Class A and Class B categories. The Class B information is then further delineated into separate calculations for employees of the Burlington Electric Department and all other B class employees. The separation of the funding for BSD employees will require that the actuarial report separately calculates the ARC requirements for BSD employees.

The calculation of the ARC is based on two major elements. The first is the calculation of the ARC necessary to fund the increase in retirement benefit liability by virtue of the current year of service. The second element of the ARC is the annual contribution to amortize any unfunded liability for past years of service. This liability is amortized over a thirty year period with an interest rate of 8.5% which is the assumed earnings rate for BERS investments. It is, in effect, a mortgage to fully fund the unfunded liability over a 30 year period.

The calculation of the unfunded liability is determined as the difference between the actuarially determined projected liabilities of the BERS for benefits owed to employees for past years of service less the projected actuarial value of the assets of the System. Currently, the unfunded liability of the Retirement System is projected to be over $50 million. The ARC necessary to pay for the unfunded liability of the System is approximately $4.5 million and is 50% higher than the ARC for current service. Stated differently, the 60% of the ARC represents the funding for the unfunded liability and only 40% of the ARC represents funding for the current year of employees' service.

The calculation of the ARC required for BSD employees as a separate group will require a determination of the amount of BERS assets to be assigned to this group of employees. Currently, this determination of the breakdown of assets of BERS is performed for Class A employees, Burlington Electric Department employees, and all non-BED Class B employees. The method for determining the assets assigned to each category is based on the calculation of the relative amounts of the ARC over previous years assignable to each of these employee categories. It is important to note that the allocation of these assets is not proportional to the actual liability for these three groups of employees. As a consequence, the unfunded liability assignable to each group is different as both an absolute amount and as a percentage of the total liability.

I anticipate that the proportion of assets assignable to BSD employees will be proportionately smaller than the liability projected for BSD employees. The reason for this

disproportion would be reflected in the significant increase in the number of BSD members and the large increase in payroll over the past five years. Payroll increases in excess of the actuarially assumed rate of 3.5% annually results in a large unfunded liability because the ARC for prior years did not anticipate the liability based on a payroll increase in increase of the actuarial assumption.

As discussed above, it is not clear whether the newly identified employees of BSD in recent years will receive service credit for years of service prior to their identification as eligible employees. However, if those employees are credited with service prior to their identification or effective "enrollment", the large increase of the BSD employees will create a significant increase in unfunded liability. This liability would reflect that the ARC for prior years did not include an ARC for these employees.

It would be important to determine the status of these employees and whether they receive credit for years of service prior to their identification or enrollment in the BERS. Such a determination will directly affect the calculation of future benefit liability and the amount of BERS assets to be credited to the class of BSL employees.

Investment Management of BERS Investments

A final consideration as the BSD and City discuss these matters is the investment management of the BERS assets. Currently, approximately 90% of the assets are under the investment management of the State of Vermont Pension Investment Committee (VPIC) which is responsible for the investment management of the three major retirement programs of the State. The remaining 10% of BERS assets are invested under the direction of the Retirement Board. These assets are invested in alternative investments in order to complement and enhance the VPIC investments.

The rationale for the VPIC management of most of the assets of BERS is set forth in reports to the City Council in 2006, 2007 and 2008. The original BERS Task Force recommendation is appended as Attachment E. Briefly summarized, VPIC assets are approximately 25 to 30 times more than BERS. Participating in this larger investment pool provides the BERS significant economies of scale, greater diversity and access to preferred managers and investment opportunities.

I strongly recommend that the portion of assets assigned to the credit of BSD employees benefits should continue to be managed by the City and the Retirement Board. Separating these funds for investment management purposes would be very detrimental to the investment performance of the assets.

Attachments

Attachment A	George Cross Report to City Council
Attachment B	Leopold Memo 11/12/10 BERS Funding for BSD Employees
Attachment C	Special Task Force Report on BERS
Attachment D	Buck Consultants Actuarial Valuation for 6/30/09
Attachment E	Leopold Memo 6/5/06 on Task Force Interim Recommendations

Attachment A

Memo

TO: Burlington City Council
FROM: George C. Cross
DATE: June 23, 2010

COMMUNICATION
DATE 6/28/10
AGENDA ITEM # 10

BURLINGTON CLERK TREASURER'S OFFICE
2010 JUN 23 A 11:40
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RE: **Final Report**

Introduction

We entered into this relationship as somewhat of an experiment. The Burlington City Council was seeking an independent review of the budget and the budget development process. The decision to retain the services of an "outside" consultant went though a variety of iterations. In the end, the decision to hire was rather quick; and, was controlled to some degree by the funds available for the task. However, if all parties accept the "experimental" aspects of the effort, there have been lessons learned. It provides the council with a framework for the future. This should help to determine how to proceed in another year and beyond.

Having attended 14 meetings of the Board of Finance and various other meetings with individual and small groups of councilors, this consultant has learned a great deal about the Queen City. Burlington has a complex budgeting process that is complicated by enterprise funds, special revenue funds, public utilities and even a municipally owned airport. Further, Burlington serves as the social, recreational, educational and entertainment hub for many other communities. While this larger service entity offers great economic benefit to the many business and commercial enterprises within the city, it also has related costs borne to some degree by the taxpayers of Burlington. It is finding the balance in the cost-vs-benefit equation that adds to the complications and complexities of preparing an annual budget for Burlington.

Recent financial problems related to the creation and implementation of a city owned telecommunications system has added to the normal stress of budget preparation. Many are concerned about the "whats, whys and hows" of the Burlington Telecom issues. Unfortunately, there are no easy answers to many of the questions. However, there are sound efforts underway to solve the problems. In developing the annual budget, it is suggested here that the BT issues should not play a major role in the decision making process. There will one day be a resolution to all BT issues. That resolution may, or may not, impact future budgets, but it seems doubtful that it will have any impact on the FY'11 budget. Any specific recommendations about BT are well outside of the ability of this consultant.

At their meeting of 6/28/10 the Burlington City Council voted to waive the reading, accept this communication and place it on file.
Attest: Lori Olivera - Licensing & Voting & Records Coordinator

One can make an argument to keep the crossing guards in the city budget; however, the great majority of city taxpayers will benefit from this expenditure being included in any transfer. Transferring the cost to the district budget does not require transferring the administration and supervision of the program. It would be possible to operate the program under contract or agreement between the city and the district.

The computations that follow will use the full $1,558,000 as a possible transfer from the city budget to the school district budget. **Attachment A** spells out the assumptions used to compute the impact of such a transfer of expenses from the city to the school district. The impact on the "statewide education property tax rate" (This term is used as there is no such thing as a local education property tax in Vermont.) come from recalculating said rates on the Department of Education sheet titled, "Proposed FY '2010 Education Tax Information." The pertinent data was checked with both the Burlington School District and the Department of Education.

Attachment B provides specific information at different household income levels and assessed values of the property. Given that no property exactly fits the levels shown, the actual differences for a specific property will depend on the details of the variables. Those presented are only for comparison purposes. As total household income reaches $90,000, there would be an increase in the taxpayers overall property tax bill. In all other cases, both homestead and non-residential, there will be a savings for Burlington property taxpayers.

This condition has come about over a period of years. When the decision to carry these costs in the city budget was made, the world of school finance in Vermont was very different. Act 60 and the following Act 68 changed the landscape. It is surprising that the auditors have not dealt with this problem prior to this date. Now, the issue is both political and financial. Failure to correct the situation leaves Burlington at risk for further criticism from several quarters.

Since the school district voters have approved the FY '11 budget excluding these potential expenditures, there may be no way to make the transfer immediately. However, it is suggested that the city open discussions with the school district as soon as possible about this problem and find agreement to have these expenses properly budgeted for FY'12. At the same time, the city needs to make both the Vermont Tax Department and the Vermont Department of Education aware of the issue and the plan to resolve it.

A second related issue is that the retirement fund that includes both school district and city employees should be separated into two parts – one for city employees and one for school district employees. Thus, the asset and the liability for each group can be properly booked in terms of GASP. The details on this one are beyond my capabilities. The division of the fund should be collaboratively determined by the district, city, auditors and retirement fund consultants.

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2010 JUN 23 A 11: 4
BURLINGTON CLERK
TREASURER'S OFFICE

There is another troubling matter appearing to influence thinking and perhaps decision-making around the budget process. That is the most important **matter of trust.** Without a basic level of trust, it is very difficult to move ahead in a cooperative way. This observer has found nothing that suggests that the budget presentations have included any financial shenanigans. Questions were answered directly, albeit at times perhaps with a more complicated response than might be necessary. It is the opinion of this writer that the taxpayers and citizens will be best served by spending time to develop a clear and concise budget development plan for the future. (There will be more about this later.) When the parties cooperatively discuss and agree to a reinvigorated budget preparation process, the matter of trust should be resolved. It is also possible that this trust issue is an occasional by-product of a "strong mayor" form of government.

What follows is a set of specific suggestions and recommendations. They are for your consideration. In many cases, they simply point out areas for exploration. The council needs to decide on specific implementations.

Act 68 Issues – City Payment for School District Services

As has been mentioned several times, there are Act 68 issues related to the city budget, including; expenditures for FICA and retirement fund contributions for a class of school district employees. Paying school crossing guards out of the city budget is another cost that can legitimately be in the school district budget.

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The legal basis for this issue is found in:

Title 16, Chapter 133, Sec. 4029 (b) states in full:

> ***"Funds received by a municipality other than a school district may not be used directly or indirectly for education expenses."***

The reason for this language is to ensure that "gold towns" will not simply shift expenses from school budgets to town/city budgets to lower the school tax rates. In the case of Burlington, such a shift has a different impact then it would in Stowe, Killington or Manchester.

We are talking about three substantial expenditures in the city budget. Here are the amounts in the FY '11 budget as provided:

a. FICA for a class of school employees	$550,000
b. Retirement fund contribution for the same class	$792,000
c. Labor costs for school crossing guards	$216,000
TOTAL	$1,558,000

Attachment A

Burlington City Council Memo of June 23, 2010

ASSUMPTIONS:

A. Related to the City of Burlington proposed FY '11 budget:

1. The propose City Council budget includes $1,558,000 that should or could be in the School District budget.
2. One cent on the Burlington municipal property tax rate raises $359,400
3. **Reducing the City proposed budget by $1,558,000 would reduce the City tax rate by $0.0434.**

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B. Related to the Burlington School District approved FY '11 budget:

1. $1,558,000 could be transferred from the proposed City budget to the proposed School budget.

(*) 2. If the above transfer was made, the total School budget would be, $74,213,842.
(*) 3. Local revenues applied to the the School budget total $28,765,427.
(*) 4. "Education Spending" in the proposed School budget would equal $45,448,415.
(*) 5. Equalized pupils in the proposed school budget equal 3928.23.
(*) 6. Education Spending per equalized pupil would be $11,570
(*) 7. Legislature established base statewide homestead education property tax rate, $0.86.
(*) 8. Statewide homestead education property tax rate adjusted for Burlington, $1.3276.
(*) 9. Legislature established statewide non-residential education property tax rate, $1.35.

10. Statewide non-residential education property tax rate adjusted for Burlington, $1.539.

(*) **11. Adding $1,558,000 to the School adopted budget would increase the statewide homestead education property tax rate by $0.0456; from $1.2820 to $1.3276.**

(*)1 **12. Adding $1,588,000 would have no impact on the statewide non-residential education property tax rate;.**

(*) All of the above recalculated from the Department of Education's "Proposed FY '2010 Education Tax Information" sheet.

Attachment A

Attachment B

Burlington City Council Memo of June 23, 2010

IMPACT OF THE TRANSFER OF $1,558,000 FROM CITY TO SCHOOL BUDGET:

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A. Direct Impact:

1. Decrease in City tax rate of $0.0434.
2. Increase in statewide homestead education property tax rate - $0.0456.
3. Increase in statewide non-residential education property tax rate - 0.
4. Increases income-based cap from 2.35% to 2.44%.

B. Impact on selected properties and income levels:

1. Homesteads:

	Income Level:	Assessed Value:	Decrease City:	Increase School: (**)	**Savings:**
(*)	$ 40,000	$ 200,000	$ 87	$ 36	**$ 51**
	$ 50,000	$ 225,000	$ 98	$ 45	**$ 44**
	$ 60,000	$ 250,000	$ 109	$ 54	**$ 55**
	$ 70,000	$ 250,000	$ 109	$ 63	**$ 46**
	$ 80,000	$ 250,000	$ 109	$ 72	**$ 37**
	$ 80,000	$ 300,000	$ 130	$ 72	**$ 58**
	$ 90000(+)	$ 300,000	$ 130	$ 137	$ (7)
	$ 90000(+)	$ 500,000	$ 217	$ 228	$ (11)

(*) The general "circuit breaker" for households with incomes under $47,000 probably modifies this equation to some degree.
(**) This increase is computed based on "income sensitivity."

2. Non-Residential (Commercial, Business, Industrial and Apartments):

Assessed Value: (*)	Decrease City:	Increase School:	**Savings:**
$ 500,000	$ 217	0	**$ 217**
$ 1,000,000	$ 434	0	**$ 434**
$ 1,500,000	$ 651	0	**$ 651**
$ 3,000,000	$ 1,302	0	**$ 1,302**
$ 5,000,000	$ 2,170	0	**$ 2,170**

(*) Assumes any 20% premium is included in the value stated.

City of Burlington
Vermont

CHIEF ADMINISTRATIVE OFFICER

City of Burlington

City Hall, Room 20, 149 Church Street, Burlington, VT 05401

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TTY (802) 865-7142

Attachment B

TO: Board of Finance

FROM: Jonathan P.A. Leopold, Jr.

DATE: November 12, 2010

RE: Funding for Retirement Benefits and FICA for School Department Employees

I am writing this memo pursuant to the discussion we had regarding this issue at a meeting of the Board of Finance last month. As you know, the Budget Consultant Report by George Cross dealt extensively with the issue of the appropriateness and potential cost savings to Burlington taxpayers by funding the costs for School employees' FICA and retirement benefits through the School budget and tax rate rather than the municipal tax rate. Mr. Cross' report details the magnitude of the retirement system and FICA costs for non-teacher School employees that are currently paid under the municipal retirement tax rate. The report also provides a calculation of the significant financial benefit to a majority of Burlington taxpayers of properly funding these costs through the School Department budget and tax rate.

The transference of these costs from the municipal tax rate does not adversely affect the overall tax rate for either residential or commercial taxpayers. In general, the transfer of this funding source would result in an increase in the School Department tax rate and an equivalent or potentially larger decrease in the municipal tax rate. More importantly, if these costs are born through the School Department tax rate, a majority of Burlington taxpayers would benefit from the income sensitivity factors for school taxes.

There are three other significant issues not covered in the Cross Report. These issues are the concept of governance and financial obligation, the funding of retirement and FICA benefits for employees who are not funded from general tax revenues and the determination of the assets and liabilities to assign to these employees.

In the past ten years retirement benefits have become a matter subject to collective bargaining. Previously, retirement benefits were not bargained and were determined by the City Council. As you know, the City is currently bargaining with all four municipal unions to change retirement benefits to reduce the magnitude of the City's unfunded liability. The City Council which is responsible for setting the tax rate to pay for retirement benefits for municipal employees also has direct responsibility for the bargaining with City municipal employees.

The City of Burlington does not discriminate on the basis of political or religious affiliation, race, color, national origin, age, sex, sexual orientation, marital status, veteran status or disability. Persons with disabilities who require assistance or special arrangements to participate in programs and activities of the Clerk Treasurer's Office are encouraged to contact us at 865-7000 or 865-7142 (TTY) at least 72 hours in advance so that proper arrangements can be made.

Attachment B

However, the City Council and Mayor do not have any direct or substantial indirect role in collective bargaining with School employees. The employees of the School Department are represented by five different bargaining units not including non-union employees not in a bargaining unit or association. The School Department administration and School Board have sole authority relative to the collective bargaining process and determination of retirement benefits for School employees.

Thus, there is a significant dichotomy between the authority and responsibility for bargaining and determining retirement benefits and the responsibility for funding the costs of those same benefits. Under the current construct, the City Council is responsible for funding the costs of retirement benefits while the School Board and administration are responsible for determining what those benefits will be. I believe it is a fundamental principle of good governance that the party responsible for defining and determining the costs should also be responsible for funding those same costs. It is problematic to dichotomize the authority for defining the benefits and the responsibility for funding those same benefits.

The second major issue relative to this matter is the current funding of FICA and retirement benefits for School employees who are funded through grants and/or special revenues separate and distinct from the School Department General Fund. As you know, the retirement property tax is for the retirement benefits and FICA for General Fund employees. All non-General Fund employees in enterprise funds, special revenue funds or grant-funded programs pay the cost of retirement benefits and FICA from these revenue sources. However, currently the retirement benefits costs and FICA costs for School Department non-General Fund employees are being billed to and paid by the municipal property tax rate. This practice is contrary to City policy and to the intent of this property tax rate authority. School Department employees who are funded in general by grants and special revenues should either have the retirement and FICA costs paid for from these same revenues or, alternatively, these employees should be deemed "limited service" employees such that they do not qualify for retirement benefits and the costs of their FICA is paid for from these same revenue sources.

Finally, the third issue is the unfunded liability for School Department employees. In 2006 when City and School employees began contributing to the cost of the Retirement System, it was determined by the School Department that there were a significant number of School employees who had not previously been reported as retirement eligible and should have been. As a result, there was a significant increase in the number of School employees with a significant liability for prior years' service that had not previously been funded prior to their identification in 2006. This issue has not been previously reviewed in detail and I am not able to provide a sense of the magnitude of this liability. However, it is clear that there is a higher portion of unfunded liability associated with School employees generally than the overall liability for municipal employees. As a consequence, in the event that the responsibility for funding benefits for School Department employees is actuarially segregated from the funding for all municipal employees, it will be necessary to determine the proper amount of assets to be credited to the liability for

School employees and thereby determine the appropriate level of unfunded liability and the consequent annual cost to amortize that liability.

CONCLUSION

In conclusion, I strongly urge the Board to begin discussions in earnest with the School Administration and School Board on how best to proceed to resolve these issues. I think it is particularly important to also request a legal analysis of how best to structure the transference of funding responsibility and capacity for the retirement and FICA benefits for School employees. Ideally it should be possible to propose either a charter change or a separate tax rate item that would transfer this authority, provide the School Board and Department capacity to insure proper funding for these costs and to clearly demonstrate to voters that this is simply a transfer of costs and not a net increase.

While I appreciate that the School Department and Board are well into the preparation of the Fiscal Year 2012 budget, the resolution of this matter is effectively budget and tax rate neutral. While this is a complicated issue, there is the potential for a significant financial benefit to Burlington taxpayers. Moreover, this matter has been discussed now for several years and it is overdue to resolve this.

Cc: Jeanne Collins
Joe McNeil
Ken Schatz
Mike Gilbar
Fred Lane

Attachment C

REPORT OF THE SPECIAL TASK FORCE

ON THE

CITY OF BURLINGTON

EMPLOYEES RETIREMENT SYSTEM

Task Force Members:

David Boardman
Eileen Elliott
John Ewing
Jane Knodell
Jonathan Leopold, Chair
Andy Montroll
Emma Mulvaney-Stanak
Karen Paul
Kurt Wright

Submitted on August 17, 2007

Attachment C

OFFICE OF THE CLERK/TREASURER

City of Burlington

City Hall, Room 20, 149 Church Street, Burlington, VT 05401

Voice (802) 865-7000
Fax (802) 865-7014
TTY (802) 865-7142

August 17, 2007

Mayor Bob Kiss
Burlington City Councilors

Dear Mayor Kiss and City Councilors;

The following constitutes the report and recommendations of the Special Task Force on the Burlington Employees Retirement System (BERS). These recommendations represent a comprehensive and unified strategy to restore the financial integrity and to reduce the costs of the BERS. We unanimously and strongly recommend the City adopt these recommendations in their entirety.

In addition to the issues considered in this report, the Task Force reviewed the status of the implementation of the recommendations to the Mayor and City Council a year ago. The Task Force strongly re-affirms the previous recommendations regarding the investment of the assets of the BERS Fund and the composition and membership of the Retirement Board.

The Task Force applauds the progress and efforts of the City Retirement Board to reduce investment management and related fees and to improve the performance of investment management. However, the Task Force remains convinced that most, if not all, of the Retirement Fund should be invested through the State of Vermont Pension Investment Committee and State Treasurer.

The Task Force also remains concerned that the composition and structure of the Retirement Board is inconsistent with the City Charter and should be restructured to ensure a balance of membership consistent with the provisions of the City Charter.

Finally, the Task Force unanimously agreed to continue to serve the City through the implementation of the recommendations herein if the Mayor and Council were so disposed.

Sincerely,

Jonathan Leopold, Convener

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Introduction and Background

The City of Burlington provides a "defined benefit" retirement program for City employees. The program, known as the Burlington Employees Retirement System (BERS), provides two separate and distinct retirement benefit plans. The plan for "A Class" employees covers uniformed personnel of the Police and Fire Departments. The "B Class" plan covers all other "civilian" employees of the City.

The A Class employees do not participate in the social security program except for the mandatory Medicare B benefit. In contrast, the B Class employees participate in the national social security program (OASDI). Thus, the plan design for the B employees is intended to complement and supplement social security benefits. In contrast, the benefit plan for the A Class employees is intended as an alternative to social security and an enhanced benefit.

Historically, the City has designed the A and B Class benefits plans in a manner intended to achieve relative equivalency in both employer and employee costs for both classes of employees. Thus, for example, the A Class employee has historically contributed to the BERS retirement fund in an amount equal to the contribution by B Class employees to the social security system. The total contributions by the City for Class B employees for both the retirement plan and social security was roughly equivalent to the total cost for a Class A employee. This parity is somewhat less since plan changes were enacted in 2000.

Both the current and future benefit obligations of the BERS are funded from the City's retirement fund. The retirement fund is financed by contributions from A Class employees, contributions from the City as the employer and by the investment income to the Fund. The employer contribution for all General Fund employees of the City is paid by the property tax levied from the retirement tax rate. The revenue generating departments such as the Burlington Electric Department, the Airport and the Church Street Marketplace pay the employer contribution from their respective department revenues.

The annual funding contribution by the City has two components expressed as a percentage of qualified employee earnings. The first component is the "normal rate" which represents the funding required to pay the future benefits an employee has accrued by virtue of that year of service. The second component is the "past service contribution" which represents the extent of under funding or over funding of the retirement system with regard to the benefits already accrued to employees for their past service.

Since these future obligations will extend for a period of thirty years or more, it is fiscally responsible to fund a deficit (under funding) over a thirty year period. Thus, it is in essence a mortgage or bond to be paid to the retirement system from annual contributions. If the retirement fund is underfunded relative to the past service benefit liabilities, the funding gap is paid annually as though it was a long term bond or mortgage with an assumed interest rate equal to the assumed earnings

rate of the investments. The amount of the annual contribution requirement is then calculated as a percent of current payroll.

This "past service contribution" and the normal rate constitute the annual contribution requirement. Conversely, if a retirement system is overfunded relative to the liabilities for past service by employees, the past service contribution becomes a credit that reduces the total annual contribution by the City.

As an example, if the BERS was underfunded by $20 million, the "past service contribution" annual funding would be approximately $1.8 million. This $1.8 million would represent a $20 million debt amortized over 30 years at 8% interest per year. Thus, if the "normal contribution" was $5.5 million, the total annual contribution would be a total of $7.3 million as the sum of $5.5 million and $1.8 million for normal and past service contributions.

Conversely, if the BERS was overfunded by $20 million, the "past service contribution" would be a credit of $1.8 million. Thus, the total annual contribution required would be $3.7 million representing the $5.5 million for the normal contribution and subtracting $1.8 million as a credit for the over funding or "past service" contribution.

Example

	$20 m Under Funding	$20 m Over Funding
Normal Contribution	$5,500,000	$5,500,000
Past Service Contribution	$1,800,000	- $1,800,000
Total Contribution	$7,300,000	$3,700,000

In conclusion, under the above example, an over funding of $20 million **reduced** the annual contribution to $3.7 million. Conversely, an under funding by $20 million **would increase** the total required annual funding to $7.3 million or nearly double the required contribution level when the system is overfunded by $20 million. Attachment A provides a history of the actual funding requirements for the past 15 years and dramatically illustrates the impact of the change from a credit for over funding to a debit for the current under funding of the BERS.

Historically, the retirement fund assets have exceeded the level determined to be necessary to pay the retirement benefits obligations of the BERS. As a consequence, the level of annual contribution required to fund accrued benefit liability was moderated by investment income above the assumed earnings rate.

In the year 2000, the City determined that the BERS was sufficiently well funded that the City could enhance benefits for employees by utilizing the over funding "surplus funds" without a significantly increase in tax rate to fund future contributions. Attachments C, D and E provide the actuarial projections of the cost and impact of the changes in benefits that were adopted in FY 2000. The long term effect of the changes was to gradually "spend down" the over funding. As the over

funding surplus was spent down, the "credit" applied to past service would be reduced and the tax rate would gradually rise.

However, Subsequent to the change in benefits in 2000, the stock market declined significantly in 2001 and 2002. The value of the BERS investments fell from an all time high of approximately $126 million to a low of $78 million. Thereby eliminating the over funding surplus projected to cover the cost of the improved benefits.

Over the ensuing years, the investments of the BERS recovered modestly to a current level of approximately $127 million as of June 30, 2007. As a consequence, with the enhanced benefits adopted in 2000 and the precipitous losses of 2001 and 2002, the BERS retirement fund had insufficient funding to provide for the projected liabilities of the BERS, i.e. the retirement fund had an "unfunded liability". The loss of credit annually for the "surplus" over funding in conjunction with the requirement to pay for the under funding has dramatically increased the annual contribution by the City.

For the past several years, the assets of the BERS have represented approximately 80% of the required funding level for the system to be determined "fully funded". This under funding is the result of two primary factors:

1. The changes in benefits in 2000 significantly increased the liabilities of the BERS; and
2. The losses in the BERS investment funds in 2001 and 2002.

The 2000 benefit changes increased the annual contribution funding requirement for the "normal contribution" because the value of the retirement benefits for current service increased significantly. Similarly, the value and cost of the retirement benefits for past service also increased and created a greater liability for the BERS.

The losses in the BERS investments eliminated the over funding "surplus" that arguably would have paid for the increased liability for the past service benefits for another decade. The combination of the losses and the increased costs for increased benefits resulted in a swing from the BERS having a "surplus" or over funding of 20% to a "deficit" or under funding of approximately 20%.

The change from 20% overfunded to 20% underfunded is dramatic and serious. It also significantly increased the current annual contribution required for funding the System. Previous to 2000, the surplus worked to reduce the annual contribution for normal or current service. Today, the deficit requires additional funding above the level required for the normal or current contribution.

Thus, the dramatic increase in the annual contribution for the BERS by City taxpayers and rate payers is primarily the result of three factors:

1. The increase in benefits increased the annual contribution for the employees current year of service or the "normal contribution";
2. The increase in benefits and the investment losses of the BERS fund eliminated the "credit" that had reduced the annual contribution prior to 2000; and

3. The deficit or under funding of the BERS due to the increased costs of benefits and the losses in investments resulted in a "debit" or additional cost to pay down the deficit or under funding of the System.

As early as 2003, the City was aware of the emerging problem of the cost of the benefit changes and the decline in the assets of the BERS and the increasing tax burden. In response to the significant increase in annual costs of the BERS, the City implemented the following measures effective July 1, 2006 for all non union personnel and for members of the Police, Fire and AFSCME unions:

1. Employee contributions by A Class employees were increased and B Class employees began to contribute not only to social security but also directly into the BERS;
2. The City scaled back the plan benefits to reduce the cost of the enhancements made in 2000; and
3. The City developed policies to moderate increases in employee compensation and to stabilize the number of City employees.

Notwithstanding the beneficial effect of the above initiatives, the costs of the BERS required a substantial increase in the property tax burden for funding the BERS for fiscal years 2004, 2005, 2006 and 2007.

In April, 2006 Mayor Bob Kiss appointed a Special Task Force to undertake a review of the BERS and to develop recommendations to reduce the burden for funding the BERS. The Task Force was structured into two phases. The first phase was accomplished in May 2006. The Task Force reviewed the investment management fees and administrative costs of the BERS and recommended that such fees and costs could be reduced by utilizing the Vermont Pension Investment Committee (VPIC) of the State of Vermont to manage the investments of the BERS funds. VPIC oversees the investment of approximately $3 billion for the State Employees Retirement Fund, the Vermont Municipal Employees Fund and the Vermont Teachers Fund. In addition, the Task Force recommended that the savings should be utilized to pay BERS administrative expenses in lieu of utilizing the annual contribution.

The Task Force provided an interim report to Mayor Kiss on June 5, 2006 recommending that the City should reduce the investment management fees of the BERS and utilize the cost savings to fund the administrative costs out of investment income. Specifically, the Task Force recommended that the City consider placing the BERS investments to be managed as part of the portfolio of the Vermont Pension Investment Committee which is responsible for the investment of approximately $3 billion of assets for the State employees' Retirement System, the State Teachers' Retirement System and the Vermont Municipal Employees Retirement System.

The second phase of the Task Force's work was to perform a detailed review and evaluation of the BERS and to provide recommendations for a plan of retirement benefits for City employees that would be affordable to City taxpayers. As noted below, the City Council further charged the Task Force to address certain issues and provide recommendations to the Council.

The proposed budget for Fiscal Year 2007 included full funding of the City's annual contribution for the BERS. This required an additional increase in property tax support for the BERS from $3.9 million to $5.2 million for an increase of 4 cents on the tax rate, equal to a 6.35% overall in property taxes exclusive of the school tax rate. This represented a 37% increase in the tax burden for the retirement system from 10.9 cents to 14.9 cents, representing more than 20% of all non-school property taxes.

In response to this significant increase in the tax burden and the costs of the BERS, the City Council adopted a resolution in June 2006 incorporating the Mayor's Task Force as a task force of both the Mayor and the City Council and requested the Task Force to address the following:

1. Determine whether the components of the BERS shall continue to be a subject of collective bargaining or instead should be exempt from bargaining as is the case with the State of Vermont Employees Retirement System.
2. Develop recommendations to return the level of taxpayer support for the System to an historic level of approximately 12% of payroll.
3. Consider the affordability and sustainability of the Retirement System and provide recommendations regarding the System's basic structure, asset allocation strategies, investment placement and advisors, benefit levels and whether the Retirement tax rate should be subject to a maximum tax rate which can only be increased on approval of the City voters.

The Task Force began the second phase in October 2006. Over the ensuing six months, the Committee met five times to discuss and consider presentations and materials covering a variety of issues in the BERS. Specifically, the Task Force considered the following issues:

1. The long term affordability of a defined contribution system;
2. Potential modifications to the plan design to reduce the level of required contributions;
3. Potential improvements to administration and management of benefits to reduce the required future contributions;
4. Strategies for alleviating the burden of the unfunded liability; and
5. Approaches to ensure stability in the burden of contributions and the stability of benefit obligations.

The Task Force report and recommendations are as follows.

Conversion from Defined Benefit to Defined Contribution Retirement Plan

The Task Force reviewed and evaluated the cost of converting the City's current "defined benefit" retirement plan to a "defined contribution" plan to alleviate the financial burden of the BERS. Simply stated, a defined benefit retirement plan provides members a specific benefit at retirement determined by a formula which typically is based on the member's length of employment, earnings history and age at retirement. Under a defined benefit plan, the cost and financing burden may fluctuate with the investment performance of the fund. The federal Social Security program, for example, is an example of a defined benefit retirement plan. Typically, the employer is the guarantor of the defined benefits for eligible members.

Under a defined contribution plan, the benefits at retirement are not specific or defined but rather the ongoing contribution of both the employee and the employer are the defining elements of the plan. The retirement benefit for a member is variable and is determined by the accumulation of employee and employer contributions and the investment earnings of the fund. Typically, a defined contribution plan benefit is specific to each individual member. At retirement, members typically may receive their benefit in a lump sum payout or convert the available funds to a lifetime annuity or periodic payments of available funds.

Historically, the predominant form of retirement and pension plans was the defined benefit plan. However, over the past twenty five years there has been a significant trend in the private sector to convert from defined benefits to defined contribution plans. Over the past twenty five years, the percentage of private sector employees participating in defined benefit plans has decreased from approximately 30% to 20%. Over the same period, the number of private sector employees participating in defined contribution plans increased from less than 10% to close to 40%. In contrast, public sector employee memberships in defined benefit plans have remained stable at approximately 90% of public sector employees.

The primary attraction of a defined contribution plan for the City is the predictability and stability of costs. The level of contributions by the City as an employer is predetermined as a fixed percentage of wages and salaries. The risks of the investment performance of the retirement fund are transferred from the employer to the employees. The primary benefit to the employee is the portability of the pension benefit as an employee changes employment.

Under a defined benefit plan, the benefit to the member employee is predetermined and guaranteed by the City as the employer. When the investment performance of the retirement plan exceeds earnings expectations, the level of employer contribution may decrease as it did in Burlington and throughout the nation during the 1990's in the rising stock market. However, when investment earnings fail to meet assumptions, the employer's contribution and fiscal burden

increases to offset the poor investment performance and ensure the funding of the defined benefit obligation. The latter situation for Burlington and indeed most cities and towns in the United States occurred with the decline in the market in 2001 and 2002.

Thus, the primary attraction of a defined benefit plan is the predictability of the benefit to be provided to member employees. The employer assumes the risk and the benefits of the investment performance of a retirement fund. Typically, a defined benefit plan is specific to the employer and is not portable unless the employer is a member of a group of participating employers in a single defined benefit plan. The lack of portability of the BERS defined benefit plan is a significant incentive for City employees to continue employment with the City since the amount of the benefits increases as years of service and the level of compensation of the employee increases. Conversely, the lack of portability of the BERS may be an initial disincentive to work for the City since a short term employee will typically not derive significant benefits from the BERS.

In terms of the issue of whether to convert to a defined contribution plan, the Task Force considered four options:

1. Terminate the current defined benefit plan for both current and future employees and institute a defined contribution plan as an alternative;
2. Maintain the current defined benefit plan for current employees but close it to future employees and provide a defined contribution plan as an alternative for new employees;
3. Maintain the current defined benefit plan and offer a defined contribution plan as a supplement or alternative; and
4. Maintain the current defined benefit plan for both current and future employees.

To review these options, the Task Force considered the potential financial benefits, the feasibility and strategy for implementation and the potential impact on the recruitment and retention of highly qualified personnel.

As noted above, the primary financial benefit to the City would be the predictability and stability of the required annual contributions under the defined contribution plan. However, the degree of the reduction of the financial burden and/or relief associated with the conversion to a defined contribution plan would be a function of a determination of the level of employer contribution.

Currently, the benefits of BERS have been subject to collective bargaining for the past fifteen years. A change to benefits, including conversion to a defined contribution plan, would require collective bargaining for the City's unionized employees. It would be extremely difficult to bargain to convert the current defined benefit plan to a defined contribution plan that provided significant reductions of employer contributions.

The Task Force determined that the most feasible strategy to convert from a defined benefit plan that reduced the financial burden to the City would be to maintain the current defined benefit plan for current employees and remove the plan

from collective bargaining. By removing the plan from collective bargaining, the City would have the flexibility to convert to a defined contribution system for future employees. However, by removing the City's retirement plan for collective bargaining by law, it would require that the City maintain the current plan in perpetuity for all current employees.

The potential benefit of converting to a defined contribution plan for all new employees would produce a significant savings assuming the contribution was substantially lower than the City contribution rate per employee for the current system. The City projects that employee turnover over the next five years will result in new employees constituting between 35% and 50% of the City workforce. Thus, with employee turnover it is projected that within five years, a substantial number of City employees would be enrolled in a defined contribution plan as an alternative to the current BERS plan.

As a final consideration, the Task Force examined the potential impact on employee recruitment and retention by converting to a defined contribution plan. In September of 2006, Moody's Investors Service reconfirmed the City's AA3 credit rating and cited a "seasoned and effective management team" as one of the key strengths of Burlington's government. The average tenure of management was approximately 15 years. Notwithstanding this statistic, recruitment and retention of City employees remains a continuing major challenge. The City wage and salary scale for certain management positions is not competitive with the marketplace for highly qualified personnel.

The City's defined benefit retirement plan provides benefits somewhat more generous than most defined benefit plans. Thus, the retirement benefits are an important element of the City's total compensation for both recruitment and retention of employees. More importantly, the City's defined benefit plan is a very significant factor in retaining employees and, in particular, management. Once an employee becomes fully vested in the BERS, the value of retirement benefits grows significantly with increased years of service and increasing salary or wages. The lack of portability of this benefit promotes retention of employees.

Finally, in light of the high cost of the BERS, the option of a supplement would exacerbate the current financial burden. The option of offering a defined contribution plan as an alternative to the current defined benefit would reduce the value of the current system as a means to retain highly qualified personnel.

Recommendation

The Task Force concluded that the BERS defined benefit plan is a critical component of the City's benefit and compensation package for City employees. Converting the defined benefit plan to a defined contribution plan will significantly undermine the City's efforts to recruit and retain high quality staff, in particular management.

Such a conversion would result in the potential loss of valued staff and would require a significant increase in salaries and wages to enhance the City's total compensation package. The BERS defined benefit plan specifically promotes the retention of valued employees.

The Task Force determined that the conversion of the BERS defined benefit plan to a defined contribution plan could stabilize and reduce the financial burden for the BERS. However, the consequences in the loss of valued staff and the difficulty in recruiting new quality employees outweigh the potential benefit of a conversion to a defined contribution plan. Therefore, the Task Force recommends the City consider other strategies to reduce the burden and stabilize the costs of the BERS.

However, it is important to emphasize that the recommendation to continue the BERS as a defined benefit plan is contingent on the implementation of the other recommendations of the Task Force as an integrated, comprehensive strategy to reduce costs and improve the financial integrity of the BERS. It is the strong consensus of the Task Force that the BERS defined benefit plan can only be sustained by reducing costs and restoring the financial strength of the BERS through the implementation of the recommendations contained herein.

In the event that these recommendations are not implemented in their entirety and the anticipated cost savings not realized, the Task Force recommends that the City initiate steps to terminate the current defined benefit plan for future employees and convert to a defined contribution system. (As discussed on page 20, the City may consider selectively converting to a defined contribution system for those new employees in bargaining units that are unwilling to adopt the recommended changes).

Stabilizing and Reducing Financial Burden

In consideration of the Task Force recommendation to not convert the BERS defined benefit plan to a defined contribution plan, the Task Force reviewed and considered certain factors contributing to the significant increase in the financial burden of the BERS. The increased burden of the City's annual contribution to fund the BERS is primarily a reflection of the significant enhancement of benefits in 2000, the decline in the investments of the BERS funds in 2001 and 2002 and increases in employee wages and salaries that exceeded the actuarial assumption of the plan.

With regard to these last two issues above, increases in salaries and wages and improvements to benefits require an increase in the required level of funding of the annual contribution for current employees for service in that year. However, this increase is compounded by the additional burden of funding the "unfunded liability" of the BERS when assets do not match projected liabilities.

When a defined benefit retirement plan's assets are sufficient to fund the liabilities of the plan, it is considered to be "fully funded". That is to say that the level of assets and future projected investment income are sufficient to fund the benefit obligations for current employees. However, when the assets are less than the actuarially determined amount sufficient to fund the benefit liability of the plan, it is considered "underfunded". The amount of the under funding or "unfunded liability" represents the actuarially determined difference between the actual assets of the retirement fund and the level of assets required to fully fund benefit liability.

As noted before, historically the BERS has been either fully funded or has actually had a surplus funding in excess of the liabilities of the BERS. However, the investment losses in 2001 and 2002, in conjunction with the enhanced benefits in 2000 caused the BERS to be underfunded. This under funding or unfunded liability of the BERS was exacerbated by increases in employee wages and salaries that exceeded the assumed rate of annual increase in employee compensation.

In the spring of 2006 the City negotiated agreements with the AFSCME and Police Unions to restructure the defined benefit of the BERS to scale back certain benefit enhancements enacted in 2000. In addition, the Police Union, as Class A employees, agreed to a two percentage point increase in employee contributions to the BERS. AFSCME, representing many Class B employees, agreed to contribute 2% of employee's wages and salaries to the BERS effective July 1, 2006 and 3% effective July 1, 2007. This contribution for B employees was historic in that previously Class B employees only contributed to their social security benefits.

The City Council enacted the changes negotiated with AFSCME for all non-union civilian management. It also enacted the changes negotiated by the Police Union for Police and Fire Department management. However, despite these agreements and changes to the BERS plan, additional significant increases of nearly $2 million in funding were required in Fiscal Year 2007. Despite these changes in benefits and the increased levels of employee contributions, the increase in the City's annual contribution for the BERS in 2007 was dramatic and led to significant taxpayer resistance.

The Task Force reviewed and considered the factors contributing to the significant increase in the annual contribution requirement for the BERS over the previous four years. The following recommendations of the Task Force reflect strategies to address the problems and/or factors underlying the significant increase in costs.

Benefit Redesign and Administration Recommendations

The Task Force reviewed certain options for the redesign of the BERS benefits to reduce the current and future levels of annual contributions. The Task Force did not address Plan redesign considerations already considered in the collective bargaining process in the first half of 2006. In considering these options,

the Task Force identified two redesign options that would have relatively small impact on most employees and would address certain issues contributing to the increase in BERS costs. These two options were to revise both the formula for Average Final Compensation (AFC) and the disability definition for qualifying for disability benefits.

Revision to Term of Average Final Compensation

The level of benefits paid an employee/retiree by BERS is determined primarily as a function of the total years of service factored by an accrual rate and the "average final compensation" for the employee. Thus, for example, the benefit for an employee with twenty years of service at an accrual rate of 1.6% for each year of service with an average final compensation of $50,000 would be calculated as follows:

20 years x 1.6% x $50,000 = $16,000 a year benefit

Currently, the Average Final Compensation (AFC) for an employee is the average annual salary or wage for the three highest years for an employee. Thus, an employee with a highest compensation level of $48,000, $50,000 and $52,000 for the highest three years of earnings would be $50,000.

As noted above, one of the factors contributing to the increase in unfunded liability and the costs for annual contributions was increasing the employee compensation in excess of the actuarially assumed rates of 3.5% per year. The assumed rate of increase of employee compensation is an important factor in projecting the future liability of a defined benefit plan since the amount of the benefit is in part determined by the employee's earnings.

Each year the annual contribution to the BERS is calculated in part based on the assumption that an employee's compensation will increase at a rate of 3.5% a year or less. If the employee's compensation increases at less than the assumed rate of 3.5%, the annual contributions paid into the system will be greater than actually required in the future. However, conversely, when if an employee's compensation increases by a rate greater than 3.5% a year, the annual contribution will ultimately be less than the amount required to fully fund the system.

Annual changes in compensation in excess of the assumed rate of 3.5% have a particularly problematic impact on BERS with respect to employees with many years of service. As noted above, the Average Final Compensation and Years of Service are the primary determinants of the level of an employee's retirement benefits. When an employee has a long history of service, both the City and the employee have contributed annually to the retirement system for each year of service based on the employee's compensation in that year and assumed future increases of not more than 3.5%. Thus, for example, an employee with 20 years of service will have 20 years of annual contributions made previously to fund the projected benefit for that employee.

However, if near the end of the employee's service there is a significant increase in compensation in excess of the 3.5% assumption, the many years of previous contributions will have been under calculated in order to fund the prospective benefit. Thus, significant increases in compensation for an employee with many years of service can create a significant under funding of the liability of the system.

When the plan design in 2000 enhanced the benefit, it created an increase in the liability of the system because previous annual contributions did not anticipate the enhanced level of benefits. In 2000 the BERS fund was actually overfunded such that the assets exceeded projected liabilities. The enhanced benefits were effectively funded by utilizing the surplus funds at that time.

Subsequent to the changes in 2000, the City also reclassified many positions in both the Police and Fire Departments. The increase in compensation for those Class A employees significantly exceeded the assumed rate of 3.5% a year. The effect of this increase in compensation was exacerbated by the fact that many of these employees had relatively high longevity and years of service.

Changes in compensation in excess of the assumed rate of 3.5% are somewhat less problematic for Class B employees since the retirement benefit for these employees is comprised of both social security and the supplementary BERS plan. In contrast, the sole retirement benefit for Class A employees is the BERS plan. Thus, when a Class B employee's compensation increases more than 3.5%, a significant portion of the liability for the increase in benefits is absorbed by the social security system.

In contrast, however, a Class A employee's sole retirement plan is the BERS. Thus, the unfunded liability for such increase in compensation falls entirely on the BERS. Thus, the reclassification of many Class A employees in both the Police and Fire Departments in recent years increased annual compensation for these employees at a rate significantly greater than 3.5%. As a consequence, the unfunded liability for these increases exacerbated the unfunded liability of the BERS.

The BERS calculates Average Final Compensation based on the three years of highest earnings. This three year basis is common to many defined benefit retirement plans. However, approximately half of all public defined benefit retirement plans utilize a five year basis.

The effect of using a five year rather than a three year basis is to moderate the impact of a significant increase in employee compensation particularly for those employees with considerable longevity. The impact on the retirement system is moderated because it is averaged over a longer period of time. In addition, the contributions to the retirement plan by both the employee and the employer are at the highest level of compensation for a longer period of time before the full impact of the increase in benefits results from the increase in compensation.

The Task Force determined that the impact on most City employees of a change from three to five years to calculate Average Final Compensation would be negligible. Most employees receive modest increases in compensation consistent with the assumed rate of 3.5% per year. A relatively small number of employees

receive increases (typically from a promotion) that will exceed the 3.5% assumption. A change to a five year basis would also moderate the effect on the system of employees who return to service after some period of absence. For such employees, three years at a new and significantly higher rate of compensation has not been factored into the determination of the original employee and employer contributions made during previous service.

A change from three to five years of the basis for calculating AFC would reduce the current unfunded liability of the BERS and would moderate the cost increase of future changes in compensation in excess of 3.5% a year. In addition, such a change would have favorable impact on employee retention. Currently, an employee who receives a promotion or returns to service will maximize the benefits of the change in compensation in three years in terms of an increase in retirement benefits as a consequence of the change in compensation.

A change to a five year basis would require that an employee remain in service for five years at the higher level of compensation to maximize the retirement benefit increase associated with the increase in compensation. Thus, there would be a significant incentive in terms of an increase in retirement benefits for an employee who remains in service at a higher level for a longer period of time (i.e., five years instead of three years). The Task Force felt this was invaluable to promote retention of employees who perform their work such that they are promoted or otherwise receive a significant change in compensation.

Recommendations

The Task Force recommends that the City change the three year basis for calculation for Average Final Compensation to a five year basis. This change will reduce the current unfunded liability of the system and will moderate future increases in unfunded liability resulting for changes in employees' compensation in excess of 3.5% a year. The Task Force estimates that the benefit of implementing this recommendation will result in a decrease of 1 cent on the tax rate.

Revision of the Early Retirement Provisions

The City enacted two major changes in the benefits for employees that significantly increased the costs of benefits. The first change was increase the accrual rate of the credit for years of service. The change in the accrual rate increased the amount of the retirement benefit to an employee by 30% to 40% depending on which COLA option a retiree chose. The City addressed this issue in March 2006 by negotiating reductions in the accrual rate to modestly reduce the cost of this change.

The second major change enacted in 2000 was to significantly reduce the offset for early retirement for employees prior to the normal retirement age of 55 and 65 for Class A and B employees respectively. Typically, retirement benefits are

reduced for early retirement of a beneficiary by an actuarially determined factor to make the total projected payout over the beneficiary's life equivalent to the total payout for a normal age retirement.

As an example, under Social Security, an early retirement benefit at age 62 is actuarially reduced from the benefit amount at age 65 so that the projected total payout is the same as the benefit payout to an individual at normal retirement of age 65. Thus, the total cost and corresponding total benefit of an early retirement is equivalent to the total cost and total benefit payout for a normal age retirement.

Prior to 2000, the BERS reduced the early retirement benefit at two different rates based on whether an employee was hired pre- or post- July 1, 1983. For employees hired post July 1, 1983, the reduction in benefit for an early retirement was an actuarially determined factor that made the total projected payout the same for both an early and normal age retirement. This approach reflected the standard for early retirement Social Security benefits. Attachment B provides a table of the reduction factors previous and subsequent to 2000. The reduction in benefit for an early retirement for a B employee at age 55 years old was approximately 2/3 of the benefit for normal retirement at age 65 years.

However, for employees hired prior to July 1, 1983 the reduction for early retirement was 3.33% for every year less than the normal retirement age for employees hired prior to July 1, 1983. Thus, for a B class employee with a normal retirement age of 65 years old, the benefit would be reduced by 33.34% or 1/3 for an early retirement at age 55 years old. This was a very generous and potentially costly benefit. (The typical actuarial adjustment for an early retirement at age 55 years old would be appro0ximately 65%)

The effect of the small reduction in benefit for an early retirement for pre 1983 employees was threefold:

1. The small reduction in benefit encouraged early retirement since the total benefit payout to an employee would be greater over the beneficiary's lifetime;
2. Employees who retired at normal retirement age were effectively penalized by receiving a smaller total benefit payout; and
3. The cost to the BERS was significantly increased since the payout for an early retirement was greater than the payout for a normal retirement and the benefit provisions encourage employees to elect the more expensive option.

The change in the BERS benefit provisions in 1983 to adopt an actuarially appropriate reduction for employees hired after July 1, 1983 represented an intentional policy by the City to adopt a standard similar to Social Security to ensure that the total benefit payout to a beneficiary would be the same regardless of the age at which an employee elected to begin to receive benefits. This change in 1983 was intended to address the problems caused by a reduction in benefits that was less than the actuarially appropriate factor.

Over time, the number of employees hired before July 1, 1983 would diminish with turnover and retirement. The effect of the adoption of the actuarial

appropriate reduction would eventually encompass all City employees. Thus, the problems associated with the actuarially too generous benefit for early retirement for employees hired prior to July 1, 1983 would be minimal and eventually eliminated.

However, the changes adopted by the City to the BERS in 2000 reversed this policy and actually greatly increased the magnitude of this issue in two respects. First, the City effectively eliminated the distinction for pre and post 1983 hired employees and thereby eliminated the actuarially determined reduction in benefits for early retirement for post 1983 employees. Second, the City then decreased the amount of the deduction for early retirement for all employees.

The reduction for pre 1983 employees for each year of early retirement was 3.33%. Thus for example, prior to the 2000 change, the retirement benefit for an early retirement at age 55 years would have been reduced by 33.33% compared to a normal age 65 years retirement. With the change in 2000, the reduction in the benefit was decreased from 3.33% per year to 2%. Thus, the reduction in benefit for an early retirement at age 55 years would be 20%. In contrast, an actuarially appropriate reduction in benefit would be approximately 65%.

The effect of this change was a dramatic increase in the benefit for an early retirement and a significant increase in the costs to the BERS and City. As an example, a B class employee with a normal age retirement benefit of $18,000 per year would receive the following early retirement benefits at age 55 years old:

Prior to the changes in 2000	
Hired Prior to July 1, 1983	$12,000 per year
Hired Subsequent to July 1, 1983	$6,408 per year
Subsequent to the changes in 2000	
Regardless of date of hire	$14,400 per year

Thus, this hypothetical early retirement benefit for an employee hired prior to July 1, 1983 increased 20% from $12,000 per year to $14,400. The increase in early retirement benefit for an employee hired post July 1, 1983 was a dramatic increase of 125% in benefit from $6,408 to $14,400 per year.

It is also important to note that the early retirement benefit currently provided by the BERS is approximately 125% greater than an actuarially appropriate neutral early retirement benefit. If all employees elect to take early retirement, the costs of the total payout of retirement benefits have been increased at least 20% for employees hired pre 1983. Even more problematic, the costs for early retirement increase approximately 125% compared to the level of benefit based on "normal" retirement.

Finally, it should be noted that this significant increase in benefit for early retirement provides even more incentive for employees to elect an early retirement. Conversely, it discourages employees to defer early retirement to the normal age 65 years. Thus, the cost of early retirement benefits is compounded by both the

increased cost of early retirements and the probable increase in the number of employees electing for early retirement benefits.

It should be noted that the early retirement benefit for A class employees was similarly changed from an actuarially determined offset for retirement prior to age 55 and 25 years of service, to no offset for early retirement after 25 years of service and a 1.82% offset for each year of service less than 25 years. The early retirement offset is effectively not affected by age. Police and fire personnel have historically had an actuarially lower longevity compared to civilian employees. However, the effect of this change in 2000 was similar to the change for B Class employees and increased potential early retirement benefits by as between 40% and 100%. It dramatically increased the costs of an early retirement and significantly increased the inequity of the benefit paid out to an early retiree and a normal age retiree.

In the past year, the City has negotiated changes with the AFSCME union for all new B Class employees to revert to an actuarially based offset for early retirement. However, the City has not yet reached agreement with the IBEW representing employees of the Burlington Electric Department and several of the bargaining units representing non-teacher employees of the School Department. For new A Class employees, the minimum retirement age was raised to 45 years.

Recommendation

With regard to the bargaining units and employees that have not yet agreed to an actuarially based offset, the City should require adoption of the actuarial standard or alternatively terminate continuation of the defined benefit plan for new employees of any bargaining unit that will not accept the standard already adopted by City AFSCME. This change is essential to control future costs and to provide equity for early and normal age retirees.

For all current B Class employees and former employees with vested benefits, the City should restore the 3.33% per year reduction in originally in place for employees hired prior to July 1, 1983. This reduction factor for early retirement is still significantly less by at least 50% than an actuarially appropriate factor. For A Class employees, the City should revert to an actuarial standard for employees with less than 25 years of service and age 55 or alternatively adopt a standard similar to the pension provisions for the Vermont State Police.

These changes would potentially save an estimated 2 to 3 cents on the tax rate By reducing costs an estimated 20%.

Revision of the Disability Criteria for the Disability Benefit

Currently, the BERS plan provides a retirement benefit for disabled employees. This benefit is in general, greater than comparable benefits under other

public defined benefit plans in several respects including the level of the benefit, the liberal definition of disability and the inclusion of non-work related disability service.

Simply stated, the BERS provides a disability retirement benefit equal to 75% of an employee's compensation prior to the disability until the beneficiary reaches normal retirement age. Upon reaching normal retirement age, the employee is converted to a regular retirement. In addition to the disability benefit, an employee continues to earn credit for years of service during the period of the disability benefit. Thus, an employee with ten years of service who becomes disabled and receives a disability benefit for fifteen years until achieving the normal retirement age receives a retirement benefit based on 25 years of service.

The BERS definition of disability for the first two years after an employee is disabled is a disability which prevents the employee from performing his or her job. After two years of disability benefits, the criteria for disability are re-defined as the inability to perform any gainful employment. The BERS definition of disability after two years parallels the disability definition under Social Security.

In addition to the cash benefit and continued accrued years of service, in the first two years of disability an employee is eligible for vocational rehabilitation at the expense of the BERS in order to enable the employee, if possible to perform gainful employment. In the first two years of disability the benefit is offset by actual earned income. After two years the benefit is offset by both earned and potential earned income.

Currently, there are approximately 30 former employees receiving disability benefits of a little over $1,100 a month on average. This represents approximately 10% of the total number of retirees and retirement payroll. Annual costs of disability benefits are approximately $675,000 a year.

The Task Force determined that the disability benefit of BERS is an important element of employee security. However, the Task Force identified several potential changes that would align the BERS disability benefit closer to the standard for other defined benefit plans and Social Security disability provisions.

Recommendation

The Task Force recommends that the City utilize a single criteria of disability based on the Social Security definition of an inability to perform gainful employment and thereby eliminate the exception for the first two years that the disability need only preclude one from performing one's prior job. In addition, the Task Force recommends that the City consider a reduction of benefit from 75% of base salary or wage to the industry standard of 66%. Finally, the Task Force also recommends utilizing the Social Security standard for income to offset the disability benefit.

It is difficult to quantify the potential savings from these recommendations. However, a 20% reduction in the cost of this benefit will result in ¼ of 1 cent on the tax rate.

Administration of Disability Benefits

The disability benefit of BERS is administered by the Retirement Board of the City. The City utilizes the City's Medical Board physicians to evaluate an employee's disability. The Board may also refer a disability applicant to a specialist for further evaluation. However, the City is frequently unable to process and evaluate a disability claim in a manner consistent with industry standards. There is anecdotal evidence that the administration of this benefit and the determination of eligibility could be substantially improved to ensure that the benefit accrues solely to employees who require the benefit.

The Task Force considered a variety of options to improve the administration of this benefit and to potentially moderate the costs associated with the benefit. These options included the following:

1. The BERS could purchase disability insurance on an annual basis and thereby transfer administration and certain risk to an insurance company;

2. The City could purchase only administration services from a private insurance company but continue to fund the benefit directly; and

3. The City could define the eligibility as "qualified to receive Social Security disability benefits" and to thereby preclude benefits for an employee not deemed eligible for Social Security Disability benefits.

The utilization by BERS of purchased disability insurance to provide the disability benefits would provide for professional administration and determination of disability. Purchased insurance would also spread the risk of an unusual incidence of employee disability to the insurance. However, the Task Force noted that ultimately over an extended period of time, the cost of the insurance would include both the benefits paid and the profit for an insurance company. Thus, the Task Force concluded that over an extended period of time the cost of the insurance would be more expensive to the BERS than direct payment of the benefits.

After the initial two year period, the definition and criteria of disability under the BERS plan parallels the standard for disability benefits under Social Security. Thus, the determination by Social Security of eligibility for disability benefits would be a valid basis for determining an employee's eligibility for the BERS disability benefit. Utilization of these criteria would provide an objective standard for determining and evaluating disability benefit eligibility.

Recommendation

The Task Force recommends that the City contract for the administration and determination of the disability benefits. A private insurance company with the expertise and experience to determine and administer the disability benefits would substantially improve the administration of the BERS disability benefit and would reduce and/or eliminate inappropriate utilization of this benefit. The Task does not recommend the City purchase full insurance for the disability benefit since the cost of the insurance would ultimately be higher than the current self-insured approach.

The Task Force also recommends that the City should require eligibility for Social Security disability benefit as a condition of eligibility for the City disability benefit within six months of the onset of the disability. The purpose of this six month period would be to provide a period sufficient for the determination of disability eligibility by the Social Security Administration.

It is difficult to determine the potential savings associated with the implementation of these recommendations. However, a 20% reduction in the costs of the disability benefit could potentially result in a ¼ of 1 cent reduction of the tax rate.

Unfunded Liability and Pension Obligation Bonds

The actuarial valuation performed by the BERS actuary, Buck Consultants, determined that the accrued liability of the BERS was $140,615,645 as of June 30, 2006. The actuarially determined assets of the BERS were a corresponding $108,342,798 as of June 30, 2006. Thus, the unfunded liability of the BERS was $32,271,847 as of June 30, 2006. The assets of BERS represented 77% of the accrued liability. While the BERS is exempt from the Federal ERISA oversight, the standard employed for determining whether a pension fund is subject to ERISA review is a minimum of 80% funding.

In general, it is preferable for a retirement plan to be fully funded rather than maintaining an unfunded liability. The underfunded status of a plan is not inherently problematic. The degree to which the under funding is a problem is determined by the magnitude of the under funding and the financial burden such under funding creates for the retirement plan.

Typically, benefits are paid over an extended period of time. Thus, a retirement plan has an extended period of time in which it can "make up" the under funding. Usually the annual contribution requirement to compensate for an unfunded liability is determined by treating the unfunded liability as a mortgage obligation of the employer or plan sponsor. The term of this virtual mortgage is typically between twenty and thirty years to correspond with the probable term during which the benefits will be paid out.

The interest rate of this mortgage for the unfunded liability is determined by the assumed investment income rate for the fund's assets. In developing the actuarial determination of the required assets to meet the liability of the plan, there is an assumed rate of return on the investments of the plan. For most retirement plans, the investment income of the retirement plan is actually the most significant source of funding for the benefit liability. When there is an unfunded liability, the assets which are not available (i.e., the unfunded liability) do not earn this investment income. This presumed rate of the lost investment income is the interest rate of the mortgage required to compensate for the lost income.

The BERS plan assumes a rate of return of investments of 8% per year. Thus, the $32 million unfunded liability as of June 30, 2006 represents $32 million of assets that will not be invested and earning 8% per annum. In order to "make up" the unfunded liability, the City must not only pay the $32 million of principal but in addition, the 8% per annum of "lost" investment income. Thus, in effect, the City currently has a mortgage owed the BERS of $32 million to be paid over a thirty year period with an interest rate of 8% per annum.

The annual cost of this "mortgage payment" is approximately $2.9 million for the $32 million unfunded liability and lost income for the retirement system. The portion of this $2.9 million funded by the property tax is approximately $2 million or just under 6 cents on the tax rate. The annual contributions required to amortize the unfunded liability represents approximately 40% of the total annual contribution for General Fund employees.

The financial difficulties of the BERS over the past six years are not uncommon among municipalities and states throughout the U.S. Many public and private defined benefit plans suffered significant losses in the adverse financial market of 2001 and 2002. Many defined benefit plans have accumulated unfunded liabilities similar to the BERS.

A common strategy to reduce the burden associated with the unfunded liability of a retirement plan is the issuance of a Pension Obligation Bond (POB) to pay the unfunded liability. The primary benefit of a POB is the differential between the interest rate of the Bond and the interest rate of the assumed earnings (and the mortgage) for the retirement plan.

For example, if the City of Burlington issued a POB, the taxable interest rate would be 6% per year. The 6% interest rate for the Bond compares favorably to the 8% interest of the mortgage for the unfunded liability. In effect, it is less expensive for the City to issue a Bond for $32 million than to pay a mortgage to the BERS at 8% interest for the same $32 million.

In concept, a POB would reduce the financial burden for the City of the $32 million unfunded liability of the BERS. With an 8% lost income interest rate, the annual contribution by the City for the unfunded liability is just under $2.9 million. Thus, the City will be paying not only the $32 million unfunded liability but almost $54 million in interest over the thirty year period.

Alternatively, if the City issued a $32 million bond at 6% interest, over thirty years the annual cost of the Bond would be just over $2.3 million. The interest expense of such a bond would be approximately $38 million over the thirty year life of the Bond. Thus, the total cost to the City over thirty years of the Bond issue would be approximately $70 million. In contrast, the total cost of paying the unfunded liability of the mortgage to the BERS would be approximately $86 million. Thus, the difference in costs over thirty years is approximately $16 million or $500,000 a year. The savings for a Pension Obligation Bond would reduce the tax rate burden for the BERS by approximately 1 cent.

The Task Force evaluated a variety of considerations relative to Pension Obligation Bonds. These considerations included:

1. The potential reduction in the City's capacity for issuing bonds while maintaining the City's credit rating and meeting other capital needs; and
2. The potential adverse effect to the City if the investment of the bond proceeds fails to achieve at least the cost of the 6% interest rate for the bonds.

The Task Force reviewed these two considerations and determined that the potential benefits of a POB more than offset the risks associated with each of these considerations.

The City's independent financial advisors, PFM, has advised the City that the issuance of a Pension Obligation Bond would not adversely restrict the City's capacity to issue additional bonds for capital improvements and maintain the City's credit rating. In fact, the extent to which the POB reduced the City's financial burden associated with the repayment of the unfunded liability would be a favorable consideration in future reviews of the City's credit rating.

The BERS performance evaluator, Dahab Associates, performed an analysis for the City of the investment strategy and asset allocation structure for the BERS fund with and without a POB funding the unfunded liability. This analysis indicated that the investments of a POB would somewhat enhance the ability of the retirement fund to achieve the assumed investment rate of return at 8% per annum while somewhat reducing the risk of not achieving this return.

The problem most often associated with the issuance of a POB is that the bond proceeds would be invested just prior to a significant market downturn. If the market downturn resulted in a loss of assets that reduced the long term investment income of the POB proceeds below 4% per annum, the actual cost to the City would exceed the 8% interest of amortizing the unfunded liability.

To offset this issue, Dahab Associates also prepared an analysis of a staged issuance and investment strategy over a four year period. The potential benefit of a staged issuance and investment would be to minimize the impact and effect of market turning for the issuance and investments of the entire POB. This strategy appeared to have a significant potential to offset the risk of adverse market turning.

Recommendation

The Task Force recommends that the City seek voter authorization to issue a Pension Obligation Bond to fund the unfunded liability of the BERS. Further, the Task Force recommends that the City consider and review the benefit of the staged or "laddered" investment of the proceeds over multiple years.

Collective Bargaining of Retirement Benefits for the BERS

Retirement benefits represent a pre-tax form of compensation for employees and are just one part of an overall compensation plan. In the collective bargaining process there is a potential for a tradeoff of employee's retirement benefits in lieu of other forms of compensation such as wages or other personnel benefits.

The current financial burdens of the annual contributions and the obligations of the City to fund the BERS are in primarily the result of the enhancements of benefits in 2000 with the concomitant decline in the BERS assets. There is some sentiment among the City's unions that these improvements in benefits (and the resulting increase in costs) were negotiated in 2000 as a partial offset for lower increases in wages and other benefits.

Under Burlington's Charter, the tax rate for the retirement system is set as required. Thus, an increase in the costs of retirement benefits and a concomitant tax increase do not require voter approval. In contrast, typically, increases in wages and salaries or other benefits must be accomplished within approved tax rates or alternatively require voter approval or offsetting savings in order for the City to fund increases in compensation within existing tax rates. Thus, as a rule, increases in employee compensation and benefits are subjected to voter approval. However, increases in Retirement benefits circumvent required voter approval for a tax increase.

Another consideration of the current inclusion of retirement benefits in collective bargaining is not only that benefit may be enhanced as occurred in 2000 but that benefits may also be retracted as occurred in 2006. From both an employee and employer perspective the collective bargaining of retirement benefits offers both the potential to improve and reduce benefits and costs.

While the potential to enhance benefits may appeal to employees, the risk of the reduction of benefits is highly undesirable. A retirement benefit is a profound consideration for the long term financial security of an employee. The extent to which such a benefit may be retracted and/or reduced is contrary to the financial security of an employee. Similarly, the extent to which changes may undermine the financial security of the retirement benefit, it is also detrimental to the employee.

Another consideration when retirement benefits are subject to collective bargaining is the legality of changing benefits for current and former employees not represented by a union. Such current and former employees have a vested interest

in the benefits and yet they are not represented in the bargaining process by which their benefits may be changed.

It is clear that such current and former employees have a legitimate concern when benefits are reduced such as occurred in 2006. Less obvious is the concern such employees and even current retirees may have when benefits are improved as occurred in 2000 and reduce the secure funding level of benefits. When such improvements increase costs and create an unfunded liability it may well jeopardize the financial security of the benefits. To the extent that benefits are thereby not as secure, these employees and especially current retirees, have a significant cause for concern.

Under Vermont State law, the retirement plan for State employees is exempt from collective bargaining. When a retirement plan is exempted from collective bargaining it cannot be changed through either the bargaining process or any other action by the employer. Thus, a statutory exemption of the BERS plan from collective bargaining would preclude both future enhancements and/or retractions of benefits. The only change that would be possible in the future would be to terminate the plan for future employees. Most importantly, benefits could not be increased and to thereby cause an increase in the tax rate that had not been approved by voters.

In this context it is also important to note that the Task Force briefly considered the issue of whether to amend the Charter to require voter approval for any increase in the Retirement tax rate. Such a change would undermine the integrity of City finances if a limit on the tax rate prevented the City from fully funding the required annual contribution to the BERS. In light of this consideration, it is important to limit the impact on the tax rate of potential changes in benefits and the costs thereof.

Recommendation

The Task Force recommends that the City seek an amendment to the City Charter and State law to exempt the Burlington Employees Retirement System from the collective bargaining process as part of a comprehensive plan embodied in the recommendations of the Task Force to secure the long term financial liability of the system while reducing the volatility and burden for funding.

Review of Prior Recommendations

Over the past eight months, the Task Force reviewed and discussed the status of the City's implementation of the previous recommendations regarding the investment of the BERS assets and the composition and role of the Retirement Board. The City has engaged in negotiations with the State Treasurer and the staff of the Office of the Attorney General on behalf of the Vermont Pension Investment Committee (VPIC) regarding an agreement whereby the investment of the City's

Retirement Fund assets would be managed by VPIC. A tentative agreement has recently been reached and is now subject to consideration by the Retirement Board, City Council and the VPIC.

The Task Force believes that investment management of the BERS investments will benefit the City in three respects. First, the investment management and related costs for the BERS will be substantially lowered by virtue of the economies of scale associated with the $3 billion of investments with VPIC. Second, the $3 billion size of the VPIC investments will provide the BERS investments access to investment managers and investment opportunities not available to an investment fund the size of BERS. Third, the Task Force believes that placement of the City's funds with VPIC will strengthen the oversight and management of the investment of the Retirement Fund.

Recently the City Retirement Board has been considering a partial investment of funds with VPIC. The rationale for not investing all of the BERS investments through VPIC is to provide the City the flexibility to create a total portfolio with a different weighting of asset classes from the weighting in the VPIC funds.

The Task Force reviewed and considered the strategy of not placing all of the funds with VPIC. The City Council members of the Task Force met with the Retirement Board and its investment performance consultant to review the rationale for this investment strategy. The Task Force concluded that the benefits of VPIC investment management continue to be compelling and that not more than 10% of the Retirement Fund should be managed independently of VPIC.

The second recommendation of the first Task Force Report was that the City should review the current structure and composition of the Retirement Board. By City Charter, the membership of the Retirement Board is a total of five members with two appointed by the City Council, two elected by City employees (one each for the A and B classes) and the Chief Administrative Officer ex officio.

However, the City Ordinances provide for an eight member Board comprised of three members appointed by the City Council, four members elected by the City employees and the Chief Administrative Officer, ex officio. The ordinance does not conform to the City Charter provisions. The Task Force believes that the current composition of the Board is not only inconsistent with the City Charter but has created an imbalance in representation of the interests over the Retirement Fund.

In this regard, it is noted that there has evolved a misperception on the part of many employees that the Retirement Fund is "their" fund and therefore the employees should have significant control over the disposition and investment of the Retirement Fund. This misperception is reinforced by the fact that A employees have always contributed to the Fund, and more recently, B employees also contribute.

Under a "defined contribution" (DC) retirement plan, it would be accurate that the funds belong to the employees. In fact, under a DC plan, each employee has an individual account with a specific amount of funds and typically each employee determines how those funds are to be invested. If the employee leaves or retires the employee is entitled to the funds specifically set aside for that employee.

However, under a defined benefit retirement plan neither the individual employee nor the employees collectively have an ownership interest or right with regard to the assets of the DB plan. Instead, the employees both individually and collectively have an interest and vested right in the benefits under the plan. The employer owns the investment assets but has the liability to provide the defined benefit to which the employee is entitled.

Under a DB plan the employer, in this instance the City, owns the assets, not the employee. The employee owns the right to the promised benefit. If the investment funds are not sufficient to pay for the costs of the benefit, the employer is obligated to still pay the full cost of the benefit. If the investment assets are greater than the liability of the benefits, the employer, not the employee, is entitled to the excess or over funding.

In this context, it is clear that the City created and owns the Retirement Fund as a means to finance the benefits it is obligated to provide employees. The employees contribute to the Retirement Fund in exchange for the benefit the City will provide at the employees retirement.

A common example of the difference in ownership of retirement plan investment assets is the difference between the federal Social Security Fund and both private and public employer 401k plans. Social Security is a defined benefit plan. The Social Security Fund is "owned" by the government even though employees contribute to the Fund. The employees who contribute to the Social Security Fund are entitled to the benefits promised but not the investment funds used to pay for the benefits.

In contrast, under a 401k plan and other similar defined contribution plans, the employee "owns" the investment funds despite the fact that the employer contributes to the fund. When the employee retires, the employee is entitled to the specific amount of funds and the employer has no further liability to the employee.

The Task Force notes that while employee representation on the Retirement Board provides significant control of the investment of the Retirement Fund, it is the City taxpayer and ratepayer who bear the burden if the Retirement Fund investments are not sufficiently successful to cover the cost of the benefits. Therefore, the Task Force feels that the composition and membership of the Board should be revised to reflect the obligation of the City to ensure the benefits owed to employees and to reflect the City's liability for the success or failure of the investment of the Retirement Fund.

Recommendations

The Task Force recommends that the City place between 90% and 100% of the assets of the Retirement Fund under the management of the VPIC. The Task Force believes that this will reduce investment management expenses, provide access to more investment opportunities and top tier managers while strengthening the oversight of the investments.

The Task Force recommends that the City Council revise the City Ordinances governing the composition and membership of the Retirement Board to comply with the City Charter. The composition and membership set forth in the City Charter more accurately reflects the City's ownership of the Retirement Fund and liability for the performance success or failure of the Fund.

Summary of Recommendations

1. The City should retain the current BERS defined benefit plan if the recommendations of the Task Force are adopted as a comprehensive plan to restore the financial health of the BERS and to reduce the current costs and tax burden. If these recommendations are not adopted and the savings achieved, the BERS should be converted to a defined contribution plan for all new employees. (p 8)

2. Revise the current three year basis of Average Final Compensation (AFC) to a five year basis to moderate future increases in unfunded liability resulting for changes in employees' compensation in excess of 3.5% a year. (p 13)

3. For all new B Class employees, the City should adopt the actuarial standard for an early retirement offset adopted effective July 1, 2006 for all non-union personnel and the City AFSCME union employees. The City should convert the current defined benefit plan to a defined contribution plan for any employee group that does not accept this standard. (p 13)

4. For all current B Class employees and former employees with vested benefits, the City should restore the 3.33% per year reduction in originally in place for employees hired prior to July 1, 1983. (p 13)

5. For A Class employees, the City should revert to the pre 2000 actuarially based offset for early retirement for employees with less than 25 years of service and age 55 or alternatively adopt a standard similar to the pension provisions for the Vermont State Police. (p 16)

6. Amend the City Ordinance to provide a uniform standard of disability based on the Social Security definition as permanent inability to perform gainful employment and utilize the Social Security standard for income to offset the disability benefit. (p 17)

7. The City should consider a reduction of benefit from 75% of base salary or wage to the industry standard of 66%. (p. 17)

8. Utilize a third party contract for the administration and determination of the disability benefits by a private insurance company with the expertise and experience to improve the administration of the disability benefit. (p 19)

9. Require eligibility for Social Security disability benefits as the standard for City disability benefits within six months of the onset of the disability eligibility. (p 19)

10. Seek voter authorization to issue a Pension Obligation Bond to fund the unfunded liability of the BERS and thereby reduce the expenses of this liability and consider whether to phase or "ladder" the investment of the proceeds over multiple years. (p 22)

11. Amend the City Charter and State law to exempt the Burlington Employees Retirement System from the collective bargaining process. (23)

12. Place at least 90% of the BERS assets under the investment of the Vermont Pension Investment Committee (VPIC) to improve diversification, reduce investment management expenses and to provide greater investment opportunities. (p 25)

13. Retain up to 10% of the BERS assets under the direct management and oversight of the Retirement Board to enable the City to adapt the total asset allocation of the BERS assets to reflect the City's investment goals (p 25)

14. Revise the City Ordinances governing the composition and membership of the Retirement Board to comply with the composition and membership set forth in the City Charter. (p 25)

ATTACHMENT A

TOTAL CONTRIBUTIONS FOR BOTH A AND B EMPLOYEES

Est. Contributions for year ending	Valuation Year	Projected Payroll	Normal Contribution	Past Service Contribution	Total Contribution	As % of Payroll
June 30,1992	1990	19,761,157	993,145	46,200	1,039,345	5.3%
June 30,1993	1991	20,813,363	1,026,775	193,423	1,220,198	5.9%
June 30,1994	1992	21,115,585	1,110,310	150,248	1,260,558	6.0%
June 30,1995	1993	21,375,754	1,136,582	**(52,411)**	1,084,171	5.1%
June 30,1996	1994	22,696,388	1,385,645	**(406,528)**	979,117	4.3%
June 30,1997	1995	23,051,397	1,420,589	**(476,493)**	944,096	4.1%
June 30,1998	1996	23,970,697	1,543,837	**(642,264)**	901,573	3.8%
June 30,1999	1997	24,458,883	1,584,700	**(1,101,395)**	483,305	2.0%
June 30,2000	1998	25,181,288	1,749,560	**(1,705,454)**	44,106	0.2%
June 30,2001	1999	26,525,647	1,879,340	**(2,721,861)**	(842,521)	-3.2%
June 30,2002	2000	26,738,897	3,237,952	**(2,470,506)**	767,446	2.9%
June 30,2003	2001	28,335,739	3,460,682	**(2,380,771)**	1,079,911	3.8%
June 30,2004	2002	29,719,840	3,688,639	**(1,226,799)**	2,461,840	8.3%
June 30,2005	2003	31,374,681	3,934,287	628,824	4,563,111	14.5%
June 30,2006	2004	33,190,245	3,782,704	905,446	4,688,150	14.1%
June 30,2007	2005	34,384,729	3,916,950	2,192,474	6,109,424	17.8%
June 30,2008	2006	35,588,195	3,301,297	2,929,190	6,230,487	17.5%

ATTACHMENT A

CONTRIBUTIONS FOR CLASS A EMPLOYEES

Est. Contributions for year ending	Valuation Year	Projected Payroll	Normal Contribution	Past Service Contribution	Total Contribution	As % of Payroll
June 30,1992	1990	4,743,837	326,376	180,161	506,537	10.7%
June 30,1993	1991	5,012,702	285,724	276,095	561,819	11.2%
June 30,1994	1992	5,081,581	305,403	270,497	575,900	11.3%
June 30,1995	1993	5,612,880	313,760	200,191	513,951	9.2%
June 30,1996	1994	5,641,617	488,564	311,065	799,629	14.2%
June 30,1997	1995	5,511,397	473,429	159,834	633,263	11.5%
June 30,1998	1996	5,797,600	546,134	154,581	700,715	12.1%
June 30,1999	1997	6,125,800	552,547	**(87,849)**	464,698	7.6%
June 30,2000	1998	6,133,571	730,508	**(66,582)**	663,926	10.8%
June 30,2001	1999	6,301,306	764,979	**(629,501)**	135,478	2.2%
June 30,2002	2000	6,468,639	1,241,332	**(962,694)**	278,638	4.3%
June 30,2003	2001	7,300,867	1,374,023	**(934,137)**	439,886	6.0%
June 30,2004	2002	7,449,084	1,477,153	**(240,193)**	1,236,960	16.6%
June 30,2005	2003	8,169,478	1,604,485	241,703	1,846,188	22.6%
June 30,2006	2004	8,341,093	1,404,640	333,297	1,737,937	20.8%
June 30,2007	2005	8,932,223	1,501,507	971,787	2,473,294	27.7%
June 30,2008	2006	9,244,851	1,306,993	1,220,155	2,527,148	27.3%

ATTACHMENT A

CONTRIBUTIONS FOR CLASS B EMPLOYEES

Est. Contribution for year ending	Valuation Year	Projected Payroll	Normal Contribution	Past Service Contribution	Total Contribution	As % of Payroll
June 30,1992	1990	15,017,320	666,769	**(133,961)**	532,808	3.5%
June 30,1993	1991	15,800,661	741,051	**(82,672)**	658,379	4.2%
June 30,1994	1992	16,034,004	804,907	**(120,249)**	684,658	4.3%
June 30,1995	1993	15,762,874	822,822	**(252,602)**	570,220	3.6%
June 30,1996	1994	17,054,772	897,081	**(717,593)**	179,488	1.1%
June 30,1997	1995	17,540,000	947,160	**(636,327)**	310,833	1.8%
June 30,1998	1996	18,173,097	997,703	**(796,845)**	200,858	1.1%
June 30,1999	1997	18,333,083	1,032,153	**(1,013,546)**	18,607	0.1%
June 30,2000	1998	19,047,717	1,019,052	**(1,638,872)**	(619,820)	-3.3%
June 30,2001	1999	20,224,341	1,114,361	**(2,092,360)**	(977,999)	-4.8%
June 30,2002	2000	20,270,258	1,996,620	**(1,507,812)**	488,808	2.4%
June 30,2003	2001	21,034,872	2,086,659	**(1,446,634)**	640,025	3.0%
June 30,2004	2002	22,270,756	2,211,486	**(986,606)**	1,224,880	5.5%
June 30,2005	2003	23,205,203	2,329,802	387,121	2,716,923	11.7%
June 30,2006	2004	24,849,152	2,378,064	572,149	2,950,213	11.9%
June 30,2007	2005	25,452,506	2,415,443	1,220,687	3,636,130	14.3%
June 30,2008	2006	26,343,344	1,994,304	1,709,035	3,703,339	14.1%

ATTACHMENT B

BURLINGTON EMPLOYEES RETIREMENT SYSTEM
CLASS B MEMBERS

Actuarily Based Early Retirement Benefit Calculation

As a Percentage of Benefit for a Normal Age Retirement

Age of Retiree	Months 0	1	2	3	4	5	6	7	8	9	10	11
55	0.356	0.359	0.362	0.365	0.368	0.371	0.375	0.378	0.381	0.384	0.387	0.390
56	0.393	0.396	0.400	0.403	0.406	0.410	0.413	0.416	0.420	0.423	0.426	0.430
57	0.433	0.437	0.441	0.444	0.448	0.452	0.456	0.459	0.463	0.467	0.471	0.474
58	0.478	0.482	0.487	0.491	0.495	0.499	0.504	0.508	0.512	0.516	0.521	0.525
59	0.529	0.534	0.538	0.543	0.548	0.552	0.557	0.562	0.566	0.571	0.576	0.580
60	0.585	0.590	0.596	0.601	0.606	0.612	0.617	0.622	0.628	0.633	0.638	0.644
61	0.649	0.655	0.661	0.667	0.673	0.679	0.685	0.691	0.697	0.703	0.709	0.715
62	0.721	0.728	0.735	0.742	0.748	0.755	0.762	0.769	0.776	0.783	0.789	0.796
63	0.803	0.811	0.818	0.826	0.834	0.841	0.849	0.857	0.864	0.872	0.880	0.887
64	0.895	0.904	0.913	0.921	0.930	0.939	0.948	0.956	0.965	0.974	0.983	0.991
65	1.000											

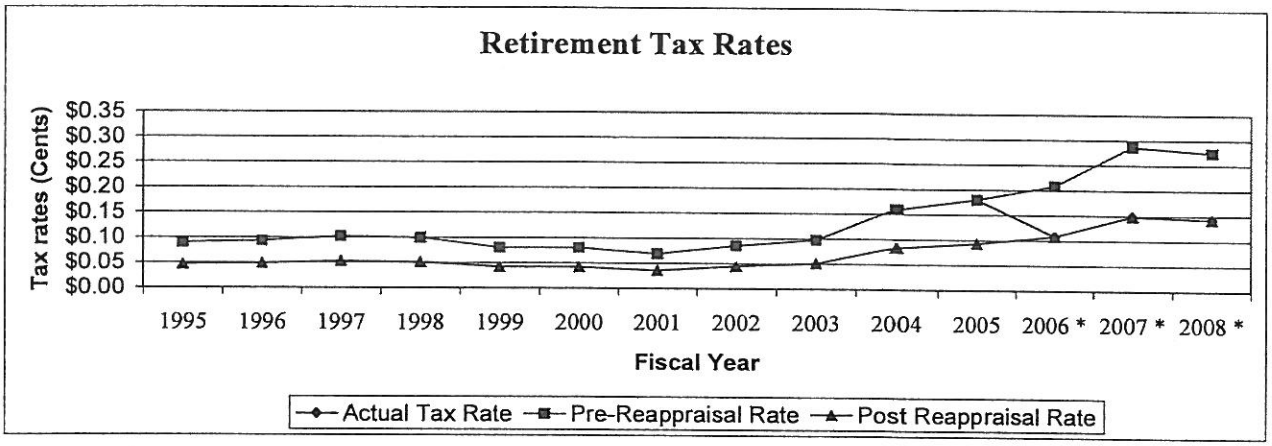
ATTACHMENT C

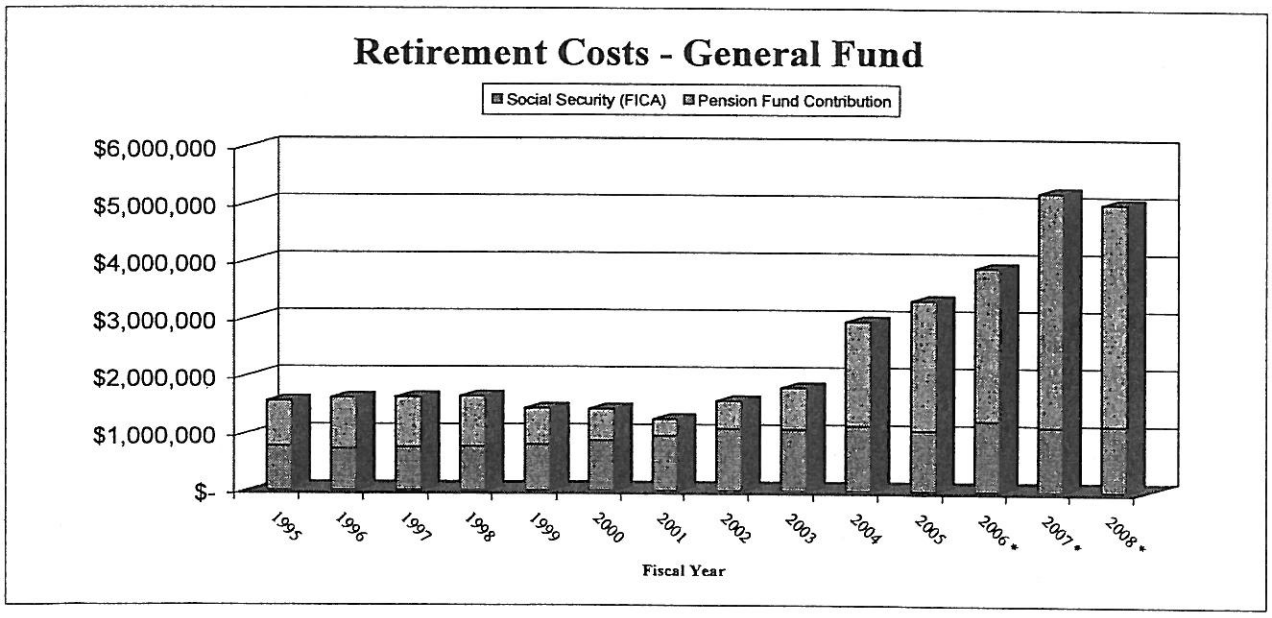
General Fund Tax Contribution to the Retirement System

General Fund Retirement Costs & Tax Rate

Fiscal Year	City Share of Social Security	City Contribution to BERS	Total	Actual Tax Rate	Pre-Reappraisal Rates	Post Re-Appraisal Tax Rates
1995	773,990	785,750	**1,559,740**	0.0896	0.0896	**0.0465**
1996	725,109	894,057	**1,619,166**	0.0933	0.0933	**0.0485**
1997	755,360	874,410	**1,629,770**	0.1021	0.1021	**0.0530**
1998	766,050	880,590	**1,646,640**	0.0992	0.0992	**0.0515**
1999	802,890	631,620	**1,434,510**	0.0808	0.0808	**0.0420**
2000	871,152	559,089	**1,430,241**	0.0808	0.0808	**0.0420**
2001	956,870	293,130	**1,250,000**	0.0689	0.0689	**0.0358**
2002	1,085,360	486,740	**1,572,100**	0.0856	0.0856	**0.0445**
2003	1,077,130	727,340	**1,804,470**	0.0978	0.0978	**0.0508**
2004	1,139,050	1,821,137	**2,960,187**	0.1603	0.1603	**0.0833**
2005	1,061,370	2,269,750	**3,331,120**	0.1803	0.1803	**0.0936**
2006 *	1,228,354	2,671,646	**3,900,000**	0.1086	0.2091	**0.1086**
2007 *	1,129,357	4,090,321	**5,219,678**	0.1491	0.2871	**0.1491**
2008 *	1,152,976	3,873,168	**5,026,144**	0.1431	0.2755	**0.1431**

* A General City-wide reappraisal was completed in 2006 which affected the tax rate required. For example, the tax rate needed to generate $3,900,000 in 2006 was 10.86 cents. However, if a reappraisal had not taken place, the rate would have been 20.91 cents. For FY'07 & '08, the same ratio was used to project a pre-reappraisal rate as in FY 2006. This discounts growth in the Grand List.





ATTACHMENT D

Total Both Burlington-Class A & B Employees
Offset Improvements with Future Actuarial Asset Gains

Pre 2000 Provisions	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Prior Svc Cost	(2,721,861)	(3,759,999)	(4,741,141)	(5,512,681)	(5,653,514)	(6,316,301)	(6,933,686)	(7,305,078)
normal	1,843,686	1,935,871	2,032,665	2,134,298	2,241,013	2,353,063	2,470,716	2,594,253
Total	(878,175)	(1,824,128)	(2,708,476)	(3,378,383)	(3,412,501)	(3,963,238)	(4,462,970)	(4,710,825)
Est. Tax Rate ***	0	0	0	0	0	0	0	0

Post 2000 Provisions Increased Past Service Liablity $16,885,000 and Normal Cost $1,285,000

Prior Svc Cost	(2,246,457)	(2,246,456)	(2,246,457)	(2,409,396)	(2,083,736)	(2,202,765)	(2,270,902)	(2,004,405)
normal	3,117,682	3,273,566	3,437,244	3,609,106	3,789,561	3,979,040	4,177,992	4,386,892
Total	871,225	1,027,110	1,190,787	1,199,710	1,705,825	1,776,275	1,907,090	2,382,487
Taxes Required	762,259	876,314	996,069	958,875	1,132,497	1,151,898	1,270,551	1,621,776
Est. Tax Rate ***	2.18	2.50	2.85	2.74	3.24	3.29	3.63	4.63

Difference Between Pre 2000 Benefits & Post 2000 Benefits

Total Amount	1,749,400	2,851,238	3,899,263	4,578,093	5,118,326	5,739,513	6,370,060	7,093,312
Taxes Required	1,308,550	1,676,440	2,077,107	2,266,146	2,248,387	2,441,206	2,751,275	3,186,255
Est. Tax Rate ***	3.74	4.79	5.93	6.47	6.42	6.97	7.86	9.10

*** Tax Rate Based on FY 2008 Grand List

ATTACHMENT E

Burlington-Class A Empolyees
Offset Improvements with Future Actuarial Asset Gains

Pre 2000 Provisions	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Prior Svc Cost	(629,501)	(1,151,166)	(1,563,857)	(1,863,474)	(2,288,656)	(2,569,340)	(2,768,558)	(2,914,020)
Normal	744,583	781,813	820,904	861,949	905,046	950,298	997,813	1,047,704
Total	115,082	(369,353)	(742,953)	(1,001,525)	(1,383,610)	(1,619,042)	(1,770,745)	(1,866,316)
Post 2000 Provisions Increased Past Service Liablity $16,885,000 and Normal Cost $515,000								
Prior Svc Cost	(629,501)	(629,501)	(629,502)	(792,442)	(1,098,047)	(1,217,531)	(1,194,057)	(1,078,930)
Normal	1,258,579	1,321,508	1,387,583	1,456,962	1,529,810	1,606,301	1,686,616	1,770,947
Total	629,078	692,007	758,081	664,520	431,763	388,770	492,559	692,017
Difference in Cost	**513,996**	**1,061,360**	**1,501,034**	**1,666,045**	**1,815,373**	**2,007,812**	**2,263,304**	**2,558,333**

Pre 2000 Provisions	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Prior Svc Cost	(2,868,981)	(3,176,936)	(2,898,993)	(2,702,749)	(2,561,447)	(2,491,874)	(2,538,478)
Normal	1,100,089	1,155,093	1,212,848	1,273,490	1,337,165	1,404,023	1,474,224
Total	(1,768,892)	(2,021,843)	(1,686,145)	(1,429,259)	(1,224,282)	(1,087,851)	(1,064,254)
Post 2000 Provisions Increased Past Service Liablity $16,885,000 and Normal Cost $515,000							
Prior Svc Cost	(748,889)	(756,454)	(193,806)	(193,806)	(193,806)	(30,867)	0
Normal	1,859,494	1,952,469	2,050,092	2,152,597	2,260,227	2,373,238	2,491,900
Total	**1,110,605**	**1,196,015**	**1,856,286**	**1,958,791**	**2,066,421**	**2,342,371**	**2,491,900**
Difference in Cost	**2,879,497**	**3,217,858**	**3,542,431**	**3,388,050**	**3,290,703**	**3,430,222**	**3,556,154**

ATTACHMENT F

Burlington-Class B Employees
Offset Improvements with Future Actuarial Asset Gains

Pre 2000 Provisions	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Prior Svc Cost	(2,092,360)	(2,608,833)	(3,177,284)	(3,649,207)	(3,364,858)	(3,746,961)	(4,165,128)	(4,391,058)
Normal	1,099,103	1,154,058	1,211,761	1,272,349	1,335,967	1,402,765	1,472,903	1,546,549
Total	(993,257)	(1,454,775)	(1,965,523)	(2,376,858)	(2,028,891)	(2,344,196)	(2,692,225)	(2,844,509)
Post 2000 Provisions Increased Past Service Liablity $16,885,000								
Normal Cost $760,000								
Prior Svc Cost	(1,616,956)	(1,616,955)	(1,616,955)	(1,616,954)	(985,689)	(985,234)	(1,076,845)	(925,475)
Normal	1,859,103	1,952,058	2,049,661	2,152,144	2,259,751	2,372,739	2,491,376	2,615,945
Total	242,147	335,103	432,706	535,190	1,274,062	1,387,505	1,414,531	1,690,470
Difference in Cost	**1,235,404**	**1,789,878**	**2,398,229**	**2,912,048**	**3,302,953**	**3,731,701**	**4,106,756**	**4,534,979**

Pre 2000 Provisions	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Prior Svc Cost	(4,447,737)	(4,334,811)	(4,335,834)	(4,242,619)	(4,083,874)	(3,992,244)	(3,984,944)
Normal	1,623,876	1,705,069	1,790,323	1,879,840	1,973,831	2,072,523	2,176,148
Total	(2,823,861)	(2,629,742)	(2,545,511)	(2,362,779)	(2,110,043)	(1,919,721)	(1,808,796)
Post 2000 Provisions Increased Past Service Liablity $16,885,000							
Normal Cost $760,000							
Prior Svc Cost	(548,834)	21,919	0	0	0	0	0
Normal	2,746,742	2,884,079	3,028,283	3,179,697	3,338,682	3,505,616	3,680,897
Total	2,197,908	2,905,998	3,028,283	3,179,697	3,338,682	3,505,616	3,680,897
Difference in Cost	**5,021,769**	**5,535,740**	**5,573,794**	**5,542,476**	**5,448,725**	**5,425,337**	**5,489,693**

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REPORT ON THE FIFTY-SEVENTH ACTUARIAL VALUATION OF THE BURLINGTON EMPLOYEES' RETIREMENT SYSTEM PREPARED AS OF JUNE 30, 2010

buckconsultants

Attachment D

A Xerox Company

November 24, 2010

Retirement Board
Burlington Employees' Retirement System
Burlington, VT 05401

Members of The Board:

Article II, Division 2, Section 24-60 of the ordinance in relation to the Burlington Employees' Retirement System provides for actuarial valuations of the assets and liabilities of the System at least once every three years and more often if the Retirement Board so directs.

The fifty-seventh actuarial valuation of the System, prepared as of June 30, 2010, has now been completed and the results are presented in this report, together with the determination of the amount of contributions payable by the City in accordance with the Retirement Board's funding policy and the disclosure information for accounting purposes required by the Governmental Accounting Standards Board.

The actuarial assumptions and methods used in this valuation are described in Schedule B.

The results of the valuation are based on the Plan provisions in effect on June 30, 2010. A summary of the System provisions is shown in Schedule C.

The Table of Contents, which immediately follows, outlines the material contained in the report.

I am a Fellow of the Society of Actuaries and a Member of the American Academy of Actuaries. I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained in this report. This report has been prepared in accordance with all applicable Actuarial Standards of Practice, and I am available to answer questions about it.

Respectfully submitted,

David L. Driscoll

David L. Driscoll, F.S.A.
Principal, Consulting Actuary

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REPORT ON THE FIFTY-SEVENTH ACTUARIAL VALUATION OF THE BURLINGTON EMPLOYEES' RETIREMENT SYSTEM PREPARED AS OF JUNE 30, 2010

SECTION I - SUMMARY OF PRINCIPAL RESULTS

For convenience of reference, the principal results of the valuation and a comparison with the preceding year's results are summarized below.

Valuation Date	6/30/2010	6/30/2009
Class A:		
Number of active members	166	172
Earnable compensation for employees below maximum retirement age	$ 9,194,959	$ 9,420,178
Number of retirees and beneficiaries	138	134
Annual retirement benefits	$ 4,381,213	$ 4,169,347
Number with vested rights	16	13
Class B:		
Number of active members	671	652
Earnable compensation for employees below maximum retirement age	$ 31,966,619	$ 30,829,817
Number of retirees and beneficiaries	325	303
Annual retirement benefits	$ 3,962,806	$ 3,374,522
Number with vested rights	353	353
Actuarial Value of Assets:		
Class A	$ 62,464,131	$ 62,952,097
Class B	68,130,408	66,889,425
Unfunded Past Service Cost:		
Class A	$ 19,663,329	$ 15,571,591
Class B	29,065,475	23,906,842
Contributions for Fiscal Year	**2012**	**2011**
Class A:		
Normal Contribution Rate	9.81%	10.08%
Past Service Contribution	$ 1,822,213	$ 1,441,355
Class B:		
Normal Contribution Rate	6.28%	6.47%
Past Service Contribution	$ 2,679,766	$ 2,240,612

Comments on the valuation results as of June 30, 2010, are given in Section IV and further discussion of the contribution levels is set forth in Section V. Section VI presents the referenced disclosure information for accounting purposes.

Schedule B of this report outlines the full set of actuarial assumptions and methods employed. All assumptions are the same as those used in the previous valuation.

Schedule C presents a summary of the principal System provisions as interpreted for the valuation.

SECTION II - EMPLOYEE DATA

Employee data were furnished by the Retirement Administrator.

Tables 1 through 4 of Schedule D show the number and annual earnable compensation of active members who were included in the valuation, while Tables 5 through 14 of Schedule D show the number and annual retirement benefits of retirees and beneficiaries included in the valuation. In addition, there are 16 Class A former members and 353 Class B former members entitled to deferred vested benefits.

SECTION III - ASSETS

The amount of assets taken into account in this valuation is based on information reported by the Retirement Administrator.

Assets are valued on the basis of a five-year expected average market value method. The operation of this method is described in Schedule B. Based on this method, the actuarial value of assets amount to $130,594,539. This may be compared to current book and market values of $120,533,941 and $111,790,020, respectively.

As part of the valuation procedure, investment earnings for the year ending June 30, 2010, have been analyzed. Based on the procedures used and certain approximations, the yield for the year has been determined to be 18.6% based on the market value of assets and 1.2% based on the actuarial value of assets.

SECTION IV - COMMENTS ON VALUATION

The projected unit credit actuarial cost method was used for this valuation. Under this cost method, benefits for active participants are determined on the basis of projected compensation at the time of anticipated termination and service credited to the valuation date. The normal cost under this method is the value of the difference between the benefits accrued for service to the valuation date and the benefits based on service to one year after the valuation date.

Schedule A of this report contains the valuation balance sheet, which shows the present and prospective assets and liabilities of the Plan as of June 30, 2010. Since the Plan is valued on a unit credit cost method basis, the balance sheet does not take into account accruals after the valuation date.

The valuation balance sheet shows that as of June 30, 2010, the Plan has accrued liabilities of $179,323,343. Of this amount, $91,877,504 represents the present value of benefits payable on account of retired members, beneficiaries and former members entitled to deferred vested benefits and $87,445,839 represents the accrued liability for prospective benefits payable on account of active members. Against these liabilities the Plan has actuarial assets of $130,594,539. The difference between the total liabilities of $179,323,343 and the assets of $130,594,539 is $48,728,804, which represents the unfunded past service cost as of June 30, 2010. The Plan's unfunded accrued liability increased by $9,250,371 from its level of $39,478,433 as of June 30, 2009. Schedule A contains a breakdown of the assets and liabilities described above by membership class.

SECTION V - APPROPRIATION TO BE MADE BY THE CITY

Article II, Division 1, Section 24-32 of the Ordinances governing the operation of the System provides that the Retirement Board shall certify to the Board of Finance the amounts payable by the City to the System, including an estimated amount required for operating expenses.

The contribution by the City, excluding operating expenses, consists of

(i) a normal contribution to cover the cost of benefits expected to accrue under the Plan during the fiscal year following the valuation date, reduced by required Class A member contributions equal to 10.8% of compensation and required Class B member contributions equal to 3.0% of compensation, plus

(ii) a past service contribution to liquidate the unfunded past service cost over a 30-year period from the date of establishment in accordance with the policy adopted by the Retirement Board. The initial unfunded past service cost to be amortized over 30 years was that in existence as of June 30, 2004.

Based on the latest valuation results and the adopted funding policy, the following table sets forth the basis for determining the City's contributions for the fiscal year ending June 30, 2012.

CONTRIBUTIONS PAYABLE BY THE CITY TO THE SYSTEM

CONTRIBUTION	AMOUNT	PERCENT OF COMPENSATION
Class A		
Normal	$ 932,642*	9.81%
Past Service	1,822,213	19.17%*
Total	$ 2,754,855	
Class B		
Normal	$ 2,113,333*	6.28%
Past Service	2,679,766	7.97%*
Total	$ 4,793,099	

* Estimated based on fiscal year end 2012 budget payrolls of $9,505,863 and $33,642,175 for Class A and Class B, respectively.

The recommended normal contribution rates in the table above should be applied to the respective earnable compensation of Class A and Class B members of the System for the fiscal year ending 2012 in order to determine the required appropriations for currently accruing benefits. In addition, the amount estimated to be required for operating expenses of the System is to be included in the certification of the Retirement Board.

Schedule E provides a development of the past service contribution for Class A and B members of the System for the fiscal year ending 2012.

Schedule F presents historical and projected required City contributions to the Retirement System assuming all actuarial assumptions are realized. No future liability gains or losses are reflected and assets are projected to earn 8% per annum. The projected payroll is assumed to increase 3.5% per annum. The actual annual contributions required by the City will be based upon future actuarial valuations.

SECTION VI - ACCOUNTING INFORMATION

Statement Nos. 25 and 27 of the Governmental Accounting Standards Board (GASB), issued in November 24994, established standards of disclosure of pension information by public retirement systems. The Annual Pension Cost is determined as the Annual Required Contribution (ARC) under the Plan's regular funding method with adjustments made to reflect the employer's Net Pension Obligation (NPO). The NPO is the cumulative difference between the Annual Pension Cost and the actual contributions made since January 1, 1987. The Annual Pension Cost is adjusted for interest charged on the NPO at the valuation interest rate and amortization of the NPO.

The Annual Pension Cost for fiscal year 2010 was $5,705,782. For fiscal year 2010, the City funding of $5,752,571 was more than the Annual Pension Cost. As a result, the Net Pension Obligation decreased to $1,979,631 as of June 30, 2010, as compared with $2,026,420 as of June 30, 2009.

Calculation of the NPO as of June 30, 2011, and the fiscal year 2012 ARC will be possible after all fiscal year 2011 City contributions have been made.

The GASB statements also require the following supplementary information be furnished by the actuary. The Schedule of Funding Progress details the progress made over the last seven years in accumulating sufficient assets to provide for benefits when they are due. The Schedule of Employer Contributions shows the Annual Required Contribution and actual contributions over the last seven years. The Schedule of Annual Pension Cost shows the Annual Pension Cost for the last four years.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets over AAL (a – b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess as a percentage of Covered Payroll ((a-b)/c)
6/30/04	107,648,941	117,669,439	(10,020,498)	91.48%	29,369,106	-34.12%
6/30/05	105,424,671	129,033,794	(23,609,123)	81.70%	30,575,851	-77.21%
6/30/06	108,343,798	140,615,645	(32,271,847)	77.05%	30,954,711	-104.26%
6/30/07	119,785,835	150,002,528	(30,216,693)	79.86%	34,256,676	-88.21%
6/30/08	129,101,729	156,313,830	(27,212,101)	82.59%	36,751,722	-74.04%
6/30/09	129,841,522	169,319,955	(39,478,433)	76.68%	39,769,493	-99.27%
6/30/10	130,594,539	179,323,343	(48,728,804)	72.83%	41,161,578	-118.38%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended	Annual Required Contribution	Actual Contribution	Percentage Contributed
6/30/04	2,461,840	2,461,840	100.00%
6/30/05	4,563,111	2,966,821	65.02%
6/30/06	4,829,945	3,782,704	78.32%
6/30/07	5,514,753	6,241,147	113.17%
6/30/08	5,978,195	5,719,282	95.67%
6/30/09	5,798,294	5,875,295	101.33%
6/30/10	5,728,980	5,752,571	100.41%

SCHEDULE OF ANNUAL PENSION COST

Year Ended	Annual Pension Cost	Percentage Contributed	Net Pension Obligation
6/30/07	5,491,541	113.17%	1,879,834
6/30/08	5,961,602	95.67%	2,122,154
6/30/09	5,779,561	101.33%	2,026,420
6/30/10	5,705,782	100.41%	1,979,631

SECTION VII - EXPERIENCE

Records are maintained whereby the actual experience of active and retired members is compared to that expected on the basis of the tables adopted by the Retirement Board. In this way, deviations in the experience from that anticipated will be noted and any adjustments believed necessary will be brought to the attention of the Retirement Board.

SCHEDULE A

VALUATION BALANCE SHEET
SHOWING THE ASSETS AND LIABILITIES ACCRUED UNDER THE BURLINGTON EMPLOYEES' RETIREMENT SYSTEM
AS OF JUNE 30, 2010

ASSETS

	Class A Members	Class B Members	Total System
Valuation Assets	$ 62,464,131	$ 68,130,408	$ 130,594,539
Unfunded past service cost	19,663,329	29,065,475	48,728,804
Total Assets	$ 82,127,460	$ 97,195,883	$ 179,323,343

LIABILITIES

Present value of benefits payable on account of retired members, beneficiaries and members entitled to deferred vested benefits	$ 48,912,633	$ 42,964,871	$ 91,877,504
Present value of prospective benefits accrued to date on account of present active members	33,214,827	54,231,012	87,445,839
Total Liabilities	$ 82,127,460	$ 97,195,883	$ 179,323,343

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SCHEDULE B

OUTLINE OF ACTUARIAL ASSUMPTIONS AND METHODS

FOR DETERMINATION OF CONTRIBUTION AMOUNTS

INTEREST RATE: 8% per annum, compounded annually.

SEPARATIONS BEFORE NORMAL RETIREMENT: Representative values of the assumed annual rates of withdrawal and vesting, early service retirement, death, and disability are as follows:

Class A Members

Age	Withdrawal and Vesting	Early Service Retirement*	Death**	Disability**
20	14.0%			
25	9.0		.1%	.2%
30	6.0		.1	.3
35	5.0		.1	.4
40	4.0		.1	.5
42	3.6		.1	.6
45	3.0	15.0%	.1	.7
50	2.0	15.0	.2	1.3
53	0.8	20.0	.3	1.8
54	0.4	20.0	.3	2.0

Class B Members

Age	Withdrawal and Vesting***	Early Service Retirement	Death**	Disability**
25	15.0%		.1%	.1%
30	12.0		.1	.1
35	10.0		.1	.1
40	5.0		.1	.2
45	5.0		.1	.3
50	5.0		.2	.5
55	4.0	5.0%	.4	.9
60	4.0	10.0	.6	1.7
61	4.0	20.0	.7	2.1
62	4.0	25.0	.8	2.5
63	4.0	30.0	1.0	2.9
64	4.0	20.0	1.1	3.4

* Rates are assumed to be 100% higher when first eligible for unreduced benefits.

** Rates reflect both ordinary and accidental occurrences.

`*** Rates are assumed to be higher during the first three years of membership (i.e., 25% at age 25, 20% at ages 30 and 35, 15% at ages 40 - 64).

NORMAL SERVICE RETIREMENT: The representative values of the assumed rates of normal service retirement are as follows:

Age	Class A	Age	Class B
55	20.0%	65	20.0%
56	20.0	66	20.0
57	20.0	67	20.0
58	20.0	68	20.0
59	20.0	69	50.0
60	100.0	70	100.0

BENEFIT COMMENCEMENT AFTER SEPARATION: Class A vested terminations are assumed to commence benefits at age 55. Class B vested terminations prior to June 30, 2000 are assumed to commence at age 65. Class B vested retirements after June 30, 2000 are assumed to commence at age 55 with a reduced benefit.

SALARY INCREASES: Representative values of the assumed annual rates of future salary increase are as follows:

Age	Class A&B
25	8.8%
30	7.0
35	5.6
40	4.9
45	4.6
50	4.3
55	4.0
59	3.9
60	3.9
65	3.8
69	3.8

DEATHS AFTER RETIREMENT: According to the 1995 Buck Mortality Tables for Males and Females; RP-2000 Disability Mortality Table for the period after disability retirement, and prior to the start of the service retirement benefit.

FUTURE EXPENSES: No provisions made.

ADJUSTMENTS TO ALLOWANCES: Cost-of-living increases averaging 3% per year were assumed.

ACCRUAL RATE ELECTION: 85% of retiring members are assumed to elect the no-COLA accrual rate and 15% of retiring members are assumed to elect the full-COLA accrual rate.

FUNDING METHOD: Projected unit credit cost method. Gains (losses) as they occur, reduce (increase) the unfunded past service cost.

ASSET VALUATION METHOD: Based on a five-year expected value of assets method in which actuarial assets are set equal to the market value of assets as of the valuation date plus:

i) four-fifths of the difference between the expected return on market assets and the actual return on market assets during the year preceding the valuation;

ii) three-fifths of the difference between the expected return on market assets and the actual return on market assets during the second year preceding the valuation;

iii) two-fifths of the difference between the expected return on market assets and the actual return on market assets during the third year preceding the valuation; and

iv) one-fifth of the difference between the expected return on market assets and the actual return on market assets during the fourth year preceding the valuation.

Expected return is equal to a year of expected investment earnings (based on the valuation interest rate) on the market value of assets as of the beginning of the year and the cash flow (contributions minus benefit payments) during the year, assuming mid-year contributions and benefit payments.

MISCELLANEOUS: The valuation was prepared on an ongoing-plan basis. The valuation was based on members in the System as of the valuation date and did not take future members into account. No provision has been made for contingent liabilities with respect to nonvested terminated members who may be reemployed. The valuation assumptions anticipate future inflation of about 3% a year.

SCHEDULE C

BRIEF SUMMARY OF PRINCIPAL SYSTEM PROVISIONS AS INTERPRETED FOR VALUATION PURPOSES

System Name	Burlington Employees' Retirement System.
Effective Date	July 1, 1954.
Average Final Compensation (AFC)	Average earnable compensation during the highest 3 non-overlapping 12-month periods. For Class A Police non-union Employees, it is the average earnable compensation during the highest 5 non-overlapping 12-month periods
Membership Eligibility	Regular employees of the City of Burlington excluding elective officers other than the mayor and excluding teachers other than certain teachers employed prior to July 1, 1947 provided age at employment is less than normal retirement age. Maximum age limitation does not apply to mayor or appointee working full time for the City.
Membership Classification	
Class A	Members of the Fire and Police Departments not including clerical employees.
Class B	All other members.
Service Retirement	
Eligibility	
Class A	Age 45 and 7 years of creditable service. Compulsory at age 60.
Class B	Age 55 and 7 years of creditable service.
Amount of Benefit	
Class A	For Fire employees hired before January 1, 2007 and Police employees hired before July 1, 2006, 2.75% of AFC times creditable service not in excess of 25 years plus .5% of AFC times creditable service between 25 and 35 years. For all others, 2.65% of AFC times creditable service not in excess of 25 years plus .5% of AFC times creditable service between 25 and 35 years. Benefit increased by Cost of Living Adjustment detailed below. In lieu of this benefit, at the time of retirement, a member hired prior to July 1, 2006 may choose either (i) an accrual rate of 3.25% for the first 25 years of creditable service, plus an accrual of .5% for creditable service between 25 and 35 years, and a Cost

of Living Adjustment equal to one half of the Cost of Living Adjustment detailed below, or (ii) an accrual rate of 3.8% for all years of service prior to June 30, 2006 for the first 25 years, an accrual rate of 3.6% for all years of service commencing July 1, 2006 for the first 25 years, plus an accrual rate of .5% for creditable service between 25 and 35 years, and no Cost of Living Adjustment.

A Fire employee hired on or after January 1, 2007 or a Police employee hired on or after July 1, 2006 may only select a benefit with a full Cost of Living Adjustment.

Prior to age 55, the above benefit based on AFC and creditable service at retirement reduced actuarially for the period of time by which retirement precedes the earlier of 25 years of creditable service and age 55. For employees who terminate with 20 to 25 years of creditable service the above benefit based on AFC and creditable service at retirement reduced by 1.82% for each year that creditable service is less than 25 years.

Class B

For employees hired prior to July 1, 2006: Age 65 and older, the greater of (i) 1.6% of AFC (at age 65) times creditable service not in excess of 25 years plus .5% of AFC (at age 65) times creditable service in excess of 25 years or (ii) the actuarial equivalent of the benefit determined at age 65. This benefit will be increased by the Cost of Living Adjustment detailed below.

For employees hired on or after July 1, 2006: Age 65 and older, the greater of (i) 1.4% of AFC (at age 65) times creditable service not in excess of 25 years plus .5% of AFC (at age 65) times creditable service in excess of 25 years or (ii) the actuarial equivalent of the benefit determined at age 65. This benefit will be increased by the Cost of Living Adjustment detailed below.

In lieu of this benefit, at the time of retirement, a member may choose (i) an accrual rate of 1.9% for all years of service prior to June 30, 2006 for the first 25 years, an accrual rate of 1.8% for all years of service commencing July 1, 2006 for the first 25 years, plus an accrual of .5% for creditable service in excess of 25 years, and a Cost of Living Adjustment equal to one-half of the Cost of Living Adjustment detailed below, or (ii) an accrual rate of 2.2% for all years of service prior to June 30, 2006 for the first 25 years, an accrual rate of 2.0% for all years of service commencing July 1, 2006 for the first 25 years, plus an accrual of .5% for creditable service in excess of 25 years, and no Cost of Living Adjustment.

A Class A Fire employee hired on or after January 1, 2007 may only select a benefit with a full Cost of Living Adjustment. A Class A Police employee hired on or after July 1, 2006 may only select a benefit with a full Cost of Living Adjustment.

Prior to age 65, the above benefit based on AFC and creditable service at retirement reduced by 2% for each year that retirement

precedes age 65. For IBEW employees hired on or after July 1, 2006, the benefit is reduced by a factor which varies with age. The factor equals 1 at age 65 but is equal to .356 at age 55.

Cost of Living Adjustment

Benefits increase annually by changes in the Consumer Price Index of more than 1%. The maximum annual increase is 6%. Increase is not applicable to deferred vested benefit prior to commencement, survivor income benefit, disability benefit prior to normal retirement age or members who choose to have no cost of living adjustment.

Service Adjustment

Class A service for calculation of benefits shall be adjusted such that any Class A employee shall be granted 1.07 years of credit for each year in which the employee worked prior to July 1, 1996, and 1.17 years thereafter, in a position regularly assigned a workweek consisting on average of fifty-three or more hours of work per week.

Disability Retirement

Eligibility

All Members. Permanently disabled.

Amount of Benefit

A benefit payable until normal service retirement eligibility (Class A - age 55 and 7 years of creditable service, Class B - age 65 and 7 years of creditable service), equal to 75% of the member's earnable compensation less workmen's compensation and, in the case of Class B, less Social Security.

After normal service retirement eligibility, a service retirement benefit based on AFC at retirement and creditable service at normal service retirement eligibility, including the period while permanently disabled and receiving a disability benefit from the System.

Accidental Death

Eligibility	Class A only. Death due to accident while in the performance of duty.
Amount of Benefit	A benefit to the spouse until death or remarriage of the greater of (i) 55% of AFC, and (ii) the participant's current accrued retirement benefit. Upon death or remarriage of the spouse, the benefit will be payable to children until age 21.

Survivor Income

Eligibility	All Members. Death in active service.
Amount of Benefit	
Class A	30% of compensation during the July preceding death payable to spouse until earlier of death or 2nd anniversary of remarriage. An additional 5% per unmarried child under 21 (maximum additional 10%) is payable until benefits cease or children no longer eligible. If there is no spouse or spouse dies, the benefit is payable to unmarried children under age 21 until earlier of death, marriage or age 21.
Class B	30% of compensation during the July preceding death payable to spouse until earlier of death, 2nd anniversary of remarriage or age 62. Upon the spouse's attainment of age 62 (if not remarried) a benefit based on the 50% Joint and Survivor form of payment will be paid to the spouse for life. If there is no spouse or spouse dies, the benefit is payable to unmarried children under age 21 until earlier of death, marriage or age 21.

Return of Contributions

Accumulated contributions returned upon separation with less than 3 years of service or upon death with no accidental death benefit payable.

Upon death of a retired Class B member, the excess of his contribution at retirement over the benefits paid will be paid to his beneficiary or estate.

Vested Retirement

Eligibility	All Members. 3 years of creditable service.
Amount of Benefit	
Class A	A percentage grading from 20% after 3 years to 100% after 7 years, of the benefit calculated using AFC and creditable service at termination. The benefit is payable commencing at age 55. Member may elect early receipt with reduction as for service retirement prior to age 55.
Class B	A percentage grading from 20% after 3 years to 100% after 7 years, of the benefit calculated using AFC and creditable service at termination. The benefit is payable commencing at age 65. Member may elect early receipt with reduction as for service retirement prior to age 65.

Survivor Spouse's Pension

Eligibility	All Members. Death of a terminated member entitled to a vested retirement benefit prior to commencement of such benefit.
Amount of Benefit	50% of reduced accrued benefit reflecting the 50% Joint and Survivor form of payment (ages as of date payments commence) payable at member's early retirement date. Spouse may elect to receive payments later than member's early retirement date with no reduction for receipt at member's 65th birthday.

Offsets on Benefits Disability and accidental death benefits are offset by workmen's compensation paid for the same disability or death.

Contributions

By Members	
Class A	10.8% of earnable compensation for the first 35 years of creditable service, none thereafter.
Class B	3.0% of earnable compensation.
By City	Remainder necessary to fund for the benefits of the System on an actuarial basis.

SCHEDULE D

TABLE 1

THE NUMBER AND ANNUAL EARNABLE COMPENSATION OF ACTIVE MEMBERS DISTRIBUTED BY AGE AS OF JUNE 30, 2010

CLASS A MEMBERS

	MALE		FEMALE	
AGE	NUMBER	AMOUNT	NUMBER	AMOUNT
22	1	$36,540		
23	3	120,447		
24	3	133,264	1	$43,744
25	1	43,163	2	88,604
26	4	167,549	1	43,744
27	4	172,935	1	43,744
28	2	96,493	1	47,088
29	6	282,471		
30	10	487,474	1	51,187
31	5	260,472	2	85,299
32	4	202,194	1	54,584
33	5	275,554		
34	6	318,624		
35	7	387,916		
36	7	364,682	1	44,860
37	6	322,997		
38	6	327,418	1	59,612
39	3	158,487		
40	7	429,482		
41	11	657,837		
42	4	221,865	1	72,853
43	8	504,452		
44	6	394,507	1	60,972
45	3	185,048	1	73,440
46	5	297,402		
47	5	326,808		
48	3	190,231		
49	2	131,326	1	62,380
50	4	262,252		
52	2	123,932		
53	1	56,014		
54			1	57,299

TABLE 1

THE NUMBER AND ANNUAL EARNABLE COMPENSATION OF ACTIVE MEMBERS DISTRIBUTED BY AGE AS OF JUNE 30, 2010

CLASS A MEMBERS (CONTINUED)

	MALE		FEMALE	
AGE	NUMBER	AMOUNT	NUMBER	AMOUNT
55	1	$98,143		
56	1	75,379		
59	1	57,449		
62	1	73,440		
63	1	61,302		
TOTAL	149	$8,305,549	17	$889,410

TABLE 2

THE NUMBER AND ANNUAL EARNABLE COMPENSATION OF ACTIVE MEMBERS DISTRIBUTED BY AGE AS OF JUNE 30, 2010

CLASS B MEMBERS

	MALE		FEMALE	
AGE	NUMBER	AMOUNT	NUMBER	AMOUNT
19	1	$28,295		
21	1	33,561		
22	1	36,974	1	$17,114
23	3	116,137		
24	3	104,131	4	67,212
25	5	201,451	4	140,943
26	5	136,064	2	50,971
27	5	204,308	2	58,459
28	3	135,363	1	43,089
29	7	349,208	5	172,210
30	9	394,551	5	167,399
31	4	183,176	4	154,424
32	2	108,946	8	351,958
33	7	339,301	8	378,542
34	7	272,767	3	131,403
35	5	219,395	6	247,291
36	6	271,807	7	275,802
37	6	288,126	2	65,023
38	3	112,241	7	333,660
39	10	425,836	7	332,339
40	11	476,321	5	214,255
41	10	502,325	4	144,822
42	11	582,207	3	128,657
43	8	449,199	6	217,765
44	9	408,899	10	426,439
45	5	253,556	6	239,037
46	13	773,220	4	160,938
47	13	632,409	12	400,536
48	23	1,301,183	9	435,132
49	12	638,507	3	120,247
50	18	923,222	16	781,000
51	16	867,974	9	379,229
52	6	354,727	11	496,990
53	17	937,169	12	477,336

Attachment D

THE NUMBER AND ANNUAL EARNABLE COMPENSATION OF ACTIVE MEMBERS DISTRIBUTED BY AGE AS OF JUNE 30, 2010

CLASS B MEMBERS (CONTINUED)

	MALE		FEMALE	
AGE	NUMBER	AMOUNT	NUMBER	AMOUNT
54	11	$599,260	7	$327,027
55	13	742,807	15	626,255
56	15	813,898	1	58,457
57	11	614,871	8	294,520
58	16	1,008,168	7	338,390
59	17	947,290	10	419,683
60	10	494,357	7	326,099
61	14	756,395	9	332,551
62	11	663,195	10	485,403
63	7	404,858	1	40,883
64	9	398,385	3	146,064
65	2	83,444	1	122,433
66	1	53,531		
67	1	47,569		
68			1	37,599
69	2	110,449		
TOTAL	405	$20,801,033	266	$11,165,586

TABLE 3

THE NUMBER AND ANNUAL EARNABLE COMPENSATION OF ACTIVE MEMBERS DISTRIBUTED BY YEARS OF SERVICE* AS OF JUNE 30, 2010

CLASS A MEMBERS

YEARS OF SERVICE	MALE NUMBER	MALE AMOUNT	FEMALE NUMBER	FEMALE AMOUNT
0	6	$245,301		
1	8	322,662	4	$174,976
2	10	446,045	3	134,578
3	6	283,764	1	47,088
4	2	93,059	1	40,441
5	5	249,244		
6	6	305,249	1	51,187
7	5	266,632		
8	13	683,723	1	60,972
9	7	377,227	1	54,584
10	10	536,877		
11	10	576,084	1	57,299
12	9	499,888		
13	4	232,228		
14	4	247,485		
15	6	363,363		
16			1	59,612
17	4	296,756		
18	1	66,880		
19	2	115,795	1	72,853
20	4	245,440	1	73,440
21	8	566,119		
22	3	189,698	1	62,380
23	6	423,243		
24	4	230,843		
26	2	154,487		
29	1	73,440		
30	1	75,379		
31	1	77,336		
39	1	61,302		
TOTAL	149	$8,305,549	17	$889,410

* Excludes service adjustment for employees with a regularly assigned workweek of 53 or more weeks.

TABLE 4

THE NUMBER AND ANNUAL EARNABLE COMPENSATION OF ACTIVE MEMBERS DISTRIBUTED BY YEARS OF SERVICE* AS OF JUNE 30, 2010

CLASS B MEMBERS

YEARS OF SERVICE	MALE		FEMALE	
	NUMBER	AMOUNT	NUMBER	AMOUNT
0	25	$1,062,677	31	$949,027
1	33	1,370,463	19	721,488
2	34	1,602,405	27	959,236
3	24	1,227,236	19	844,019
4	20	1,056,892	18	611,950
5	18	767,974	11	397,751
6	13	550,501	6	232,142
7	17	750,952	14	645,039
8	14	620,884	7	243,493
9	20	948,106	14	743,666
10	5	204,759	10	422,322
11	19	913,265	12	559,039
12	8	540,555	6	219,373
13	8	398,420	8	341,988
14	9	551,617	4	160,323
15	13	636,265	12	581,757
16	4	223,363	2	106,545
17	3	286,268	2	59,471
18	1	47,084	1	47,146
19	8	470,705	1	54,188
20	6	344,478	4	179,822
21	5	309,239	1	51,799
22	10	637,452	6	322,306
23	6	338,187	4	237,216
24	4	390,310	2	122,860
25	4	202,923	3	129,816
26	15	865,231	2	110,857
27	9	470,343	2	107,293
28	5	279,056	3	158,139
29	7	477,649	2	85,048
30	8	495,849		
31	10	557,447	2	121,623
32	5	329,287	3	155,222
33	2	85,948		

* Excludes service adjustment for employees with a regularly assigned workweek of 53 or more weeks.

TABLE 4

THE NUMBER AND ANNUAL EARNABLE COMPENSATION OF ACTIVE MEMBERS DISTRIBUTED BY YEARS OF SERVICE AS OF JUNE 30, 2010

CLASS B MEMBERS (CONTINUED)

YEARS OF SERVICE	MALE		FEMALE	
	NUMBER	AMOUNT	NUMBER	AMOUNT
34	2	$114,537	2	$108,112
35	1	54,850		
36			1	50,653
37			3	189,720
38	3	202,371		
39	1	69,134		
40	1	53,308		
41	1	61,952	1	58,457
42	3	187,080		
43	1	44,011	1	76,680
TOTAL	405	$20,801,033	266	$11,165,586

Attachment D

TABLE 5

THE NUMBER AND ANNUAL RETIREMENT BENEFITS OF RETIREES DISTRIBUTED BY AGE AS OF JUNE 30, 2010

CLASS A MEMBERS

SERVICE RETIREMENTS

	MALE		FEMALE	
AGE	NUMBER	AMOUNT	NUMBER	AMOUNT
45	2	$82,487		
46	2	68,069		
47	1	44,643		
48	3	147,863		
49	3	108,671		
50	3	178,295	1	$30,952
51	4	146,465		
52	2	66,960		
53	7	226,094		
54	6	242,122		
55	3	91,366		
56	4	196,320		
57	1	28,572		
58	5	196,243		
59	3	126,108		
60	6	213,292	1	8,121
61	9	282,562		
62	5	127,953		
63	6	219,138		
64	4	126,589		
65	4	137,359		
66	3	105,128		
67	8	279,351		
68	2	75,459		
69	3	88,074		
70	2	53,929		
71	2	20,044		
74	1	43,668		
75	1	39,599		
76	1	32,704		
77	1	25,961		
79	1	25,434		

TABLE 5

THE NUMBER AND ANNUAL RETIREMENT BENEFITS OF RETIREES DISTRIBUTED BY AGE AS OF JUNE 30, 2010

CLASS A MEMBERS

SERVICE RETIREMENTS (CONTINUED)

	MALE		FEMALE	
AGE	NUMBER	AMOUNT	NUMBER	AMOUNT
80	2	$41,875		
81	3	64,400		
84	1	27,997		
85	1	20,975		
90	1	22,287		
TOTAL	116	$4,024,056	2	$39,073

TABLE 6

THE NUMBER AND ANNUAL RETIREMENT BENEFITS OF RETIREES DISTRIBUTED BY AGE AS OF JUNE 30, 2010

CLASS B MEMBERS

SERVICE RETIREMENTS

	MALE		FEMALE	
AGE	NUMBER	AMOUNT	NUMBER	AMOUNT
55			1	$10,459
56	2	$44,812	1	25,246
57	2	28,599	2	23,611
58	1	17,762	1	3,818
59	3	59,567	2	34,509
60	3	69,793	2	12,390
61	8	132,025	3	54,675
62	2	54,670	1	2,576
63	4	28,896		
64	8	101,771	5	45,572
65	6	85,203	2	2,112
66	5	98,957	3	19,343
67	6	53,235	5	41,484
68	10	152,837	10	151,200
69	8	108,001	10	164,049
70	6	110,708	5	81,684
71	5	89,585	2	27,039
72	5	29,524	3	16,674
73	11	186,447	3	57,412
74	2	39,475	6	91,026
75	7	86,846	4	20,806
76	6	39,344	6	49,754
77	2	34,028	3	14,768
78	5	62,912	1	20,950
79	3	43,288	3	29,399
80	3	47,860	5	10,113
81	1	7,014	5	87,858
82	1	8,089	1	419
83	1	13,174		
84	4	41,555	1	10,916
85	2	7,553	1	11,599
86	1	2,994	1	1,916

TABLE 6

THE NUMBER AND ANNUAL RETIREMENT BENEFITS OF RETIREES DISTRIBUTED BY AGE AS OF JUNE 30, 2010

CLASS B MEMBERS

SERVICE RETIREMENTS (CONTINUED)

	MALE		FEMALE	
AGE	NUMBER	AMOUNT	NUMBER	AMOUNT
87			1	$2,190
88	1	$3,993		
89	1	5,304	2	8,975
90			1	10,561
92			1	7,248
96	1	11,605		
TOTAL	136	$1,907,426	103	$1,152,351

TABLE 7

THE NUMBER AND ANNUAL RETIREMENT BENEFITS OF RETIREES DISTRIBUTED BY AGE AS OF JUNE 30, 2010

CLASS A MEMBERS

DISABILITY RETIREMENTS

	MALE		FEMALE	
AGE	NUMBER	AMOUNT	NUMBER	AMOUNT
43	1	$34,800		
48	1	27,013		
64	1	15,602		
78	1	16,533		
79	1	16,512		
88	1	13,382		
TOTAL	6	$123,842		

TABLE 8

THE NUMBER AND ANNUAL RETIREMENT BENEFITS OF RETIREES DISTRIBUTED BY AGE AS OF JUNE 30, 2010

CLASS B MEMBERS

DISABILITY RETIREMENTS

	MALE		FEMALE	
AGE	NUMBER	AMOUNT	NUMBER	AMOUNT
46	1	$7,007		
49	1	6,037		
50	1	13,224	2	37,288
51	1	7,966		
52	2	55,569	1	15,509
54	1	9,282	1	16,121
55	1	6,956		
56	1	8,496	1	36,395
58	4	59,084	1	5,010
59	3	47,789		
60	2	24,394	4	57,851
61	3	84,993	1	11,618
62	4	51,237		
64	1	10,668		
80	1	5,540		
83	1	5,463		
TOTAL	28	$403,705	11	$179,792

TABLE 9

THE NUMBER AND ANNUAL RETIREMENT BENEFITS OF BENEFICIARIES OF RETIREES DISTRIBUTED BY AGE AS OF JUNE 30, 2010

CLASS A MEMBERS

BENEFICIARIES OF DECEASED MEMBERS

	MALE		FEMALE	
AGE	NUMBER	AMOUNT	NUMBER	AMOUNT
15	1	$15,819		
18			1	$7,236
52			1	6,782
54			1	8,499
58			1	6,916
66			1	16,208
67			1	9,132
68			2	48,670
69			1	11,359
75			1	17,908
81			1	12,814
83			1	15,468
88			1	17,431
TOTAL	1	$15,819	13	$178,423

TABLE 10

THE NUMBER AND ANNUAL RETIREMENT BENEFITS OF BENEFICIARIES OF RETIREES DISTRIBUTED BY AGE AS OF JUNE 30, 2010

CLASS B MEMBERS

BENEFICIARIES OF DECEASED MEMBERS

	MALE		FEMALE	
AGE	NUMBER	AMOUNT	NUMBER	AMOUNT
27	1	$1,363		
45			1	$6,398
48	1	9,480		
56	1	12,774		
57			3	29,285
58			1	1,979
59			1	10,346
61			1	6,370
62			2	13,224
63			1	30,821
64			1	4,536
65			1	405
68			2	10,685
69			1	8,108
70			4	34,993
71			2	13,496
72			1	4,448
73			2	10,561
75			2	9,315
76			1	1,944
77			1	4,034
78			3	26,062
79			1	3,078
80	1	1,429	2	7,306
82			1	10,595
83			1	2,866
84	1	6,698		
85			1	10,021
86			1	6,670
87			2	15,601
88			1	3,346
93			1	1,295
TOTAL	5	$31,744	42	$287,788

TABLE 11

THE NUMBER AND ANNUAL RETIREMENT BENEFITS OF SERVICE RETIREMENTS DISTRIBUTED BY FORM OF ANNUITY AS OF JUNE 30, 2010

CLASS A MEMBERS

	MALE		FEMALE	
FORM	NUMBER	AMOUNT	NUMBER	AMOUNT
LIFE ANNUITY	60	$2,270,358	1	$30,952
CERTAIN & LIFE	17	584,061		
JOINT & SURVIVOR	32	921,996	1	8,121
J&S POP-UP	7	247,641		
TOTAL	116	$4,024,056	2	$39,073

TABLE 12

THE NUMBER OF RETIREES, DISABLED RETIREES, AND BENEFICIARIES DISTRIBUTED BY COLA TYPE AS OF JUNE 30, 2010

CLASS A MEMBERS

COLA TYPE	MALE	FEMALE
NO COLA	63	1
HALF COLA	7	1
FULL COLA	53	13
TOTAL	123	15

TABLE 13

THE NUMBER AND ANNUAL RETIREMENT BENEFITS OF SERVICE RETIREMENTS DISTRIBUTED BY FORM OF ANNUITY AS OF JUNE 30, 2010

CLASS B MEMBERS

	MALE		FEMALE	
FORM	NUMBER	AMOUNT	NUMBER	AMOUNT
LIFE ANNUITY	56	$734,432	77	$938,734
CERTAIN & LIFE	20	240,809	11	105,501
JOINT & SURVIVOR	45	635,117	12	85,373
J&S POP-UP	15	297,068	3	22,743
TOTAL	136	$1,907,426	103	$1,152,351

TABLE 14

THE NUMBER OF RETIREES, DISABLED RETIREES, AND BENEFICIARIES DISTRIBUTED BY COLA TYPE AS OF JUNE 30, 2010

CLASS B MEMBERS

COLA TYPE	MALE	FEMALE
NO COLA	70	59
HALF COLA	10	7
FULL COLA	89	90
TOTAL	169	156

SCHEDULE E

BURLINGTON EMPLOYEES' RETIREMENT SYSTEM

PAST SERVICE AMORTIZATION SCHEDULE

CLASS A EMPLOYEES

Description	Date Established	Original Base	7/1/2010 Outstanding Balance	FY 2011 Past Svc Contribution	7/1/2011 Outstanding Balance	Years Remaining to Fund	FY 2012 Past Service Contribution
Initial Amortization	7/1/2004	$3,698,048	$3,557,876	$333,297	$3,509,209	24	$333,298
FY 05 Experience	7/1/2005	6,655,535	6,902,057	638,490	6,815,733	25	638,490
FY 06 Experience	7/1/2006	2,588,959	2,715,949	248,368	2,684,857	26	248,368
FY 07 Experience	7/1/2007	(1,715,997)	(1,819,248)	(164,622)	(1,800,166)	27	(164,622)
FY 08 Experience	7/1/2008	713,490	763,767	68,448	756,420	28	68,448
FY 09 Experience	7/1/2009	3,308,275	3,572,937	317,375	3,541,397	29	317,375
FY 10 Experience	7/1/2010	3,969,991	3,969,991	-	4,287,590	30	380,856
Total			$19,663,329	$1,441,355	$19,795,040		$1,822,213
Equivalent Single Amortization Period			27 Years				

CLASS B EMPLOYEES

Description	Date Established	Original Base	7/1/2010 Outstanding Balance	FY 2011 Past Svc Contribution	7/1/2011 Outstanding Balance	Years Remaining to Fund	FY 2012 Past Service Contribution
Initial Amortization	7/1/2004	$6,322,451	$6,107,557	$572,148	$6,024,014	24	$572,149
FY 05 Experience	7/1/2005	6,670,273	7,010,676	648,537	6,922,993	25	648,538
FY 06 Experience	7/1/2006	5,080,481	5,340,170	488,348	5,279,036	26	488,348
FY 07 Experience	7/1/2007	(728,430)	(772,259)	(69,881)	(764,159)	27	(69,881)
FY 08 Experience	7/1/2008	(3,206,229)	(3,432,160)	(307,585)	(3,399,148)	28	(307,585)
FY 09 Experience	7/1/2009	9,475,775	10,233,837	909,045	10,143,499	29	909,046
FY 10 Experience	7/1/2010	4,577,654	4,577,654	-	4,943,866	30	439,151
Total			$29,065,475	$2,240,612	$29,150,101		$2,679,766
Equivalent Single Amortization Period			27 Years				

SCHEDULE F

Burlington Employees' Retirement System
Historical and Projected Contributions

Class A & B Employees

Fiscal Year Ending	Projected Payroll	Normal Contribution		Past Service Contribution	Contribution Shortfall	Total City Contribution	
June 30, 2004	$29,719,840	$3,688,639	12.4%	($1,226,799)		$2,461,840	8.3%
June 30, 2005	31,374,680	3,934,287	12.5%	628,824	($1,596,290)	2,966,821	9.5%
June 30, 2006	33,190,245	3,782,704	11.4%	905,446	(756,403)	3,931,747	11.8%
June 30, 2007	34,384,729	3,916,950	11.4%	2,259,664	683,638	6,860,252	20.0%
June 30, 2008	35,588,195	3,037,864	8.5%	2,929,190	(256,122)	5,710,932	16.0%
June 30, 2009	36,833,782	3,073,086	8.3%	2,694,687	107,522	5,875,295	15.5%
June 30, 2010	40,328,362	3,297,021	8.2%	2,455,550		5,752,571	14.3%
June 30, 2011	42,563,572	3,097,260	7.3%	3,681,967		6,779,227	15.9%
June 30, 2012	43,148,038	3,045,975	7.1%	4,501,979		7,547,954	17.5%
June 30, 2013	44,658,219	3,152,585	7.1%	4,501,979		7,654,564	17.1%
June 30, 2014	46,221,257	3,262,926	7.1%	4,501,979		7,764,905	16.8%
June 30, 2015	47,839,001	3,377,128	7.1%	4,501,979		7,879,107	16.5%

Notes:
No future liability gains or losses are assumed; assets are assumed to earn 8% per annum.
Projected payroll assumed to increase 3.5% per annum.
Unfunded liability as of June 30, 2004, was amortized over 30 years.
All future changes in unfunded liability will be amortized over 30 years.

Attachment D

SCHEDULE F

Burlington Employees' Retirement System
Historical and Projected Contributions

Class A Employees

Fiscal Year Ending	Projected Payroll	Normal Contribution		Past Service Contribution	Contribution Shortfall	Total City Contribution	
June 30, 2004	$7,449,084	$1,477,153	19.8%	($240,193)		$1,236,960	16.6%
June 30, 2005	8,169,478	1,604,485	19.6%	241,703	($646,497)	1,199,691	14.7%
June 30, 2006	8,341,093	1,404,640	16.8%	333,297	(306,343)	1,431,594	17.2%
June 30, 2007	8,932,223	1,501,507	16.8%	998,999	276,873	2,777,379	31.1%
June 30, 2008	9,244,851	1,306,993	14.1%	1,220,155	(103,729)	2,423,419	26.2%
June 30, 2009	9,568,421	1,233,492	12.9%	1,055,533		2,289,025	23.9%
June 30, 2010	9,412,887	1,150,199	12.2%	1,123,981		2,274,180	24.2%
June 30, 2011	9,478,375	955,410	10.1%	1,441,355		2,396,765	25.3%
June 30, 2012	9,505,863	932,642	9.8%	1,822,213		2,754,855	29.0%
June 30, 2013	9,838,568	965,285	9.8%	1,822,213		2,787,498	28.3%
June 30, 2014	10,182,918	999,070	9.8%	1,822,213		2,821,283	27.7%
June 30, 2015	10,539,320	1,034,037	9.8%	1,822,213		2,856,250	27.1%

Notes:
No future liability gains or losses are assumed; assets are assumed to earn 8% per annum.
Projected payroll assumed to increase 3.5% per annum.
Unfunded liability as of June 30, 2004, was amortized over 30 years.
All future changes in unfunded liability will be amortized over 30 years.

SCHEDULE F

Burlington Employees' Retirement System
Historical and Projected Contributions

Class B Employees

Fiscal Year Ending	Projected Payroll	Normal Contribution		Past Service Contribution	Contribution Shortfall	Total City Contribution	
June 30, 2004	$22,270,756	$2,211,486	9.9%	($986,606)		$1,224,880	5.5%
June 30, 2005	23,205,202	2,329,802	10.0%	387,121	($949,793)	1,767,130	7.6%
June 30, 2006	24,849,152	2,378,064	9.6%	572,149	(450,060)	2,500,153	10.1%
June 30, 2007	25,452,506	2,415,443	9.5%	1,260,665	406,765	4,082,873	16.0%
June 30, 2008	26,343,344	1,730,871	6.6%	1,709,035	(152,393)	3,287,513	12.5%
June 30, 2009	27,265,361	1,839,594	6.7%	1,639,154	107,522	3,586,270	12.6%
June 30, 2010	30,915,475	2,146,822	6.9%	1,331,569		3,478,391	11.3%
June 30, 2011	33,085,197	2,141,849	6.5%	2,240,612		4,382,461	13.2%
June 30, 2012	33,642,175	2,113,333	6.3%	2,679,766		4,793,099	14.2%
June 30, 2013	34,819,651	2,187,300	6.3%	2,679,766		4,867,066	14.0%
June 30, 2014	36,038,339	2,263,856	6.3%	2,679,766		4,943,622	13.7%
June 30, 2015	37,299,681	2,343,091	6.3%	2,679,766		5,022,857	13.5%

Notes:
No future liability gains or losses are assumed; assets are assumed to earn 8% per annum.
Projected payroll assumed to increase 3.5% per annum.
Unfunded liability as of June 30, 2004, was amortized over 30 years.
All future changes in unfunded liability will be amortized over 30 years.

City of Burlington
Vermont

OFFICE OF THE CHIEF ADMINISTRATIVE OFFICER
City of Burlington

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Attachment E

TO: Mayor Bob Kiss

FROM: Jonathan Leopold, Chief Administrative Officer

DATE: June 5, 2006

RE: Interim Recommendation of the Mayor's Task Force on the Burlington Employees Retirement System (BERS)

I am writing on behalf of the Mayor's Task Force on the Burlington Employees Retirement System (BERS) which you appointed last month to review and evaluate the system. The work of the Task Force has been structured into two phases. The first phase was a short-term review of two specific proposals to reduce the magnitude of the increase in the property tax rate necessary to fund the City's obligation to the BERS for fiscal year 2007. The second and longer term phase of the Task Force's work will be a comprehensive review and evaluation of the BERS to advise you how best the City can provide retirement benefits to City employees on a basis that will be affordable for City taxpayers.

As you know the BERS has been a cause of considerable controversy and discussion these past few years. As noted in the Final Report on the Long Term Fiscal Security of Burlington by the Super-Committee of the Burlington City Council, the cost of the BERS has risen dramatically over the past six years and has resulted in a very significant increase in the property tax rate and tax burden for Burlington taxpayers.

Recent efforts to reduce the costs of the BERS have included an increase in contributions by City employees, a scaling back of the benefit design, a moderation of Cost of Living Adjustments (COLA) and overall compensation and stabilizing the number of current City Employees. Despite these efforts, the City's actuary Buck Consultants projects the obligation of the City for fiscal year 2007 will require an increase of approximately $1.5 million in property taxes and an increase of 4.8 cents in the tax rate.

It is in this context that you have asked the Task Force to review and evaluate two specific proposals to reduce the costs of the BERS and to thereby mitigate the projected property tax increase. In the course of this review, the Task Force met three times in the past two weeks. At the second meeting, the Task Force met with Vermont State Treasurer Jeb Spaulding and the Chair of the Burlington Retirement Board, James Strouse. In addition to the Task Force members, meetings were attended by City Attorney Joe McNeil, Assistant CAO Karen Wingate, Human Resources Director Larry Kupferman and Chief Accountant John Stewart.

The two specific short term proposals the Task Force was asked to review were as follows:

1. To reduce the current fees and costs of the BERS for investment management and related services by requesting that the Vermont State Treasurer and the Unitary State Retirement Board provide investment management services for the BERS; and
2. To utilize the projected savings in the investment management and related fees and costs from the above proposal to finance the administrative costs of the BERS.

The Task Force has completed this first phase review and herewith provides you our recommendations. Currently, the BERS investments total nearly $110 million. In comparison, the total investments of the three state funds managed by the State Treasurer and the Unitary Investment Board (the Vermont State Teachers' Retirement Fund, the State Employees Fund and the Municipal Employees Fund) are approximately $2.8 billion.

Typically, investment management fees and related expenses are determined as a percentage of the assets invested. Moreover, there are significant economies of scale in the way these fees are structured. As a result, the investment fees and related costs are significantly less as a percentage of the assets managed as the size of a fund increases.
Consistent with this principle, the investment management fees and related expense of the BERS is significantly higher as a percentage of investments in comparison to the investment management fees and related expenses of the State Retirement Funds.

Based on these economies of scale for investment management fees and related costs, it would be possible to reduce such costs for the BERS by approximately 50% for an annual savings of approximately $400,000 by joining the investment program of the State Treasurer and Unitary Investment Board. In effect, the BERS would utilize the Treasurer and Investment Board as investment managers for approximately half the current cost to the BERS.

Recent legislation authorized the Treasurer and Investment Board to provide this service to individual municipal funds like Burlington's. At the request of the Task Force, the State Treasurer and Board have indicated a willingness to develop a structure and process whereby this service might be provided to Burlington and other municipalities. Interestingly, The Commonwealth of Massachusetts provides such a program for municipalities and may be a model for creating a similar program in Vermont.

As part of the evaluation and review of this proposal, the Task Force met with Treasurer Spaulding to discuss the current structure and management of the state funds and also reviewed the performance of the State Funds over the past 10 years. The Task Force noted the following factors associated with the comparatively larger size of the State Funds:

1. The State Funds are able to retain investment managers and advisers not available to a Fund as small as Burlington's;
2. The State Funds are able to achieve a greater degree of diversification of investments that is not possible for a small fund the size of BERS;
3. The State Treasurer and Unitary Investment Board have established a strong and professional investment management structure and system;
4. The investment performance of the three State Retirement Funds compares favorably to BERS;
5. The investment management fees and related costs of the State Funds are approximately half of BERS as a percent of assets.

As noted above, if the BERS investment management and related expenses were reduced to a level comparable to the costs of the State Funds, it would produce a savings for BERS of approximately $400,000. Coincidentally, the Budget request for FY '07 for the administration of the BERS is just under $400,000. These administrative costs of BERS are paid annually from property taxes generated by the "Retirement Tax Rate" and the revenues paid by non General Fund Departments such as the Airport and Burlington Electric Department (BED).

The second proposal the Task Force considered was to begin to pay the administrative costs of BERS utilizing the savings from reducing the investment fees and related costs. The effect of this proposal would be two fold:

1. The savings in investment fee and related expenses would be used to directly off set the significant increase in tax burden; and
2. It would somewhat reduce effective investment returns by using investment funds to pay for administrative expenses.

The Task Force noted that both the current BERS approach and the proposed approach of funding administrative expenses out of investment returns are utilized by other municipal and state retirement funds.

Conclusion and Recommendations

Based on the above considerations, Task Force concludes and hereby recommends the following:

1. The investment management fees and related expenses of the BERS can and should be reduced to provide an annual savings of between $375,000 and $425,000;
2. The proposal to request that the State Treasurer and Unitary Investment Board represents an attractive and appropriate mechanism to reduce the investment management and related expenses of the BERS;
3. The City should enter into discussions with the State Treasurer and Investment Board to further explore this approach with an implementation timeline goal of Sept.30, 2006; and
4. The City should utilize the savings from reduced investment management fees and related expenses to fund the costs of Administration of BERS.

The Task Force and/or I would be pleased to meet with you or members of the City Council to answer any questions or to discuss these recommendations further.

Attached is a selection of certain documents reviewed by the Task Force. Please note that these attachments are not inclusive of all the documentation reviewed by the Task Force.