

Ordinance No. 124640

Council Bill No. 118244

AN ORDINANCE relating to the Firefighters' Pension Fund established under RCW 41.16; amending Ordinance 117216 as last amended by Ordinance 124057 to continue the suspension of contributions to the Actuarial Account for an additional two years through 2016.

Related Legislation File:

Date Introduced and Referred: <u>10-27-14</u> 10-20-14	To: (committee): <u>Budget</u>
Date Re-referred:	To: (committee):
Date Re-referred:	To: (committee):
Date of Final Action: <u>11/24/14</u>	Date Presented to Mayor: <u>11/26/14</u>
Date Signed by Mayor: <u>12/2/14</u>	Date Returned to City Clerk: <u>12/2/14</u>
Published by Title Only <u>X</u>	Date Vetoed by Mayor:
Published in Full Text	
Date Veto Published:	Date Passed Over Veto:
Date Veto Sustained:	Date Returned Without Signature:

The City of Seattle – Legislative Department

Council Bill/Ordinance sponsored by: Licata

Committee Action:

Date	Recommendation	Vote
<u>11/14/14</u>	<u>PASS</u>	<u>9-0</u>

This file is complete and ready for presentation to Full Council.

Full Council Action:

Date	Decision	Vote
<u>Nov. 24, 2014</u>	<u>Passed</u>	<u>9-0</u>

Law Department

CITY OF SEATTLE

ORDINANCE 124640

COUNCIL BILL 118244

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4 AN ORDINANCE relating to the Firefighters' Pension Fund established under RCW 41.16;
5 amending Ordinance 117216 as last amended by Ordinance 124057 to continue the
6 suspension of contributions to the Actuarial Account for an additional two years through
7 2016.

8 WHEREAS, on July 11, 1994, the City Council passed Ordinance 117216, establishing an
9 Actuarial Account within the Firefighters' Pension Fund with the intent of accumulating,
10 by means of an actuarially determined Level Payment Amount, sufficient funding in the
11 Actuarial Account to fully amortize all pension obligations by December 31, 2018; and

12 WHEREAS, on November 13, 1997, the City Council passed Ordinance 118814, which clarified
13 the funding plan for the Actuarial Account; and

14 WHEREAS, under RCW 41.18.040, RCW 41.18.104, and RCW 41.26.240 pension benefits of
15 qualifying retirees are mandated to grow at the same rate as the salaries of current Seattle
16 firefighters of the same rank, and it is the City's responsibility to cover related increased
17 pension costs above the growth rate of the Consumer Price Index; and

18 WHEREAS, on November 20, 2006, the City Council passed Ordinance 122293, postponing by
19 five years the date by which full funding of the Actuarial Account was to be achieved in
20 recognition of lower interest rates available for investments; and

21 WHEREAS, due to increases in Firefighters' salaries and lower-than expected returns on
22 investments in the Actuarial Account and, in recognition of the uncertain local and
23 national economies, turmoil in the financial markets, and growing pressure on the City's
24 General Fund to achieve Actuarial Account target levels as reflected in Ordinance
25 118814, the City Council suspended contributions to the Actuarial Account in 2009 and
26 2010 with the passage of Ordinance 122859, in 2011 and 2012 with the passage of
27 Ordinance 123459, and in 2013 and 2014 with the passage of Ordinance 124057; and

28 WHEREAS, the City continues to face in the 2015-2016 biennium revenue growth forecasts that
only just keep pace with the growth in total labor costs or overall operations and
maintenance costs; and

WHEREAS, in 2013 the City Finance Director with the approval of the Fire Pension Board
authorized the City's Department of Finance and Administrative Services to invest the
Actuarial Account balances in U.S. stocks and bonds with the intent of maximizing the
investment return consistent with State law and at appropriate levels of risk; and

1 WHEREAS, the most recent Draft Actuarial Valuation Report dated August 8, 2014 from
2 Milliman indicated that January 1, 2014 assets in the Fire Pension Fund equaled
3 \$12,731,000, of which approximately \$10.0 million is in the Actuarial Account; and

4 WHEREAS, it is the intent of the Mayor and Council not to draw upon the balance in the
5 Actuarial Account until such time that the funds accumulated in the Account are
6 estimated to be sufficient to cover all actuarially determined future pension obligations
7 for the remaining life of the Fund; and

8 WHEREAS, in keeping with the City's obligation and commitment to fund on an ongoing
9 annual basis the expected pension, health care and long-term care benefit costs of the Fire
10 Pension Fund until all Fund obligations have been met, the 2015 Adopted and 2016
11 Endorsed Budget appropriates, based on actuarial estimates of expected pension, health
12 and long-term care benefit costs, amounts sufficient to meet those costs in each year; and

13 WHEREAS, additional time is needed for the Department of Finance and Administrative
14 Services, the City Budget Office, and the Seattle Firefighters' Pension Board to consider
15 the funding basis of the Actuarial Account; NOW, THEREFORE,

16 **BE IT ORDAINED BY THE CITY OF SEATTLE AS FOLLOWS:**

17 Section 1. Section 1 of Ordinance 117216, which section was last amended by Ordinance
18 124057, is amended as follows:

19 The following funding policy is adopted with respect to the Firefighters' Pension Fund
20 (the "Fund"):

21 A. Beginning in 1994, the City will place in a separate "Actuarial Account" within the
22 Fund each year an amount which is sufficient to fully amortize as described below the estimated
23 remaining pension liabilities of the Fund by December 31, 2023. The Actuarial Account will be
24 funded as follows:

25 1. Each year, the City will appropriate a "Level Payment Amount" to the Fund. The Level
26 Payment Amount is intended to be constant for each year between 1994 and 2023. If necessary,
27 the Level Payment Amount will be modified every two years as specified in subsection A(4)

1 below. Notwithstanding the foregoing, no payments will be made in ~~((2013 and 2014))~~2015 and
2 2016.

3 2. In each year, the Level Payment Amount will be the sum of the expected current
4 pension obligations for that year and a contribution to the Actuarial Account. Thus, the transfer
5 to the Actuarial Account may vary in amount from year to year.

6 3. In some years, the expected current pension obligations will exceed the Level Payment
7 Amount. In such years, the City will appropriate additional funds to the Fund in order to cover
8 all expected current pension obligations. No contribution will be made to the Actuarial Account
9 in such years.

10 4. The actuarial calculations of the Level Payment Amount and of the portion to be
11 contributed to the Actuarial Account shall be performed in a manner consistent with Attachment
12 A to Ordinance 118814.

13 5. Beginning in 1998, the Level Payment Amount will be recalculated by June 30 of each
14 even-numbered year by a qualified actuary retained by the Board. While the Level Payment
15 Amount is generally expected to remain constant over time, small variations are likely due to
16 changes in mortality, inflation, and other factors. In addition, the actuary will calculate the
17 expected current pension obligations for each of the two following years. The contribution to the
18 Actuarial Account will be defined as the difference between the Level Payment Amount and the
19 expected current pension obligations for each year. The City will use the actuary's figures in
20 establishing the Level Payment Amount in the biennial budget for the following two years,
21 subject to Board confirmation. In the mid-biennium, the City shall revise the expected current
22 pension obligations based on the actuary's latest estimates, subject to Board confirmation. This
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1 Section 2. This ordinance shall take effect and be in force 30 days after its approval by
2 the Mayor, but if not approved and returned by the Mayor within ten days after presentation, it
3 shall take effect as provided by Seattle Municipal Code Section 1.04.020.
4

5 Passed by the City Council the 24th day of Nov., 2014, and
6 signed by me in open session in authentication of its passage this
7 24th day of Nov., 2014.

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9 
10 _____
11 President _____ of the City Council

12 Approved by me this 2 day of December, 2014.

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15 _____
16 Edward B. Murray, Mayor

17 Filed by me this 2nd day of December, 2014.

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20 _____
21 Monica Martinez Simmons, City Clerk

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28 (Seal)

2015 BUDGET LEGISLATION FISCAL NOTE

Department:	Contact Person/Phone:	CBO Analyst/Phone:
FAS	Dave Hennes/4-0537	Dave Hennes/4-0537

Legislation Title: AN ORDINANCE relating to the Firefighters' Pension Fund established under RCW 41.16; amending Ordinance 117216 as last amended by Ordinance 124057 to continue the suspension of contributions to the Actuarial Account for an additional two years through 2016.

Summary of the Legislation:

This legislation continues to suspend contributions to the Actuarial Account in the Firefighters' Pension Fund for an additional two years through 2016. It calls for a review and evaluation of funding for the Actuarial Account to be conducted by the Department of Finance and Administrative Services, the City Budget Office, and the Seattle Firefighters' Pension Board in 2015.

Background:

In 1994, the Mayor and City Council approved Ordinance 117216 to begin to accumulate funds in a separate Actuarial Account within the Firefighters' Pension Fund. The intention of this ordinance was to accumulate sufficient funds in the Actuarial Account by the end of 2018 to fully fund all pension obligations owed after that date. The funding approach was clarified in 1997 through Ordinance 118814, and the funding period was extended to 2023 with the passage of Ordinance 122293 in 2006.

Actuarial studies prior to 2006 assumed the Actuarial Account could earn 7 percent interest, which was a reasonable assumption in the 1990s, and the Actuarial Account earned interest at a rate slightly higher than the assumed rate. However, interest rates fell dramatically in the early part of the last decade and it was apparent by 2006 that this was no longer a reasonable assumption. Based on the advice of its then current actuary, Mercer Human Resources Consulting, and with the recommendation of the Seattle Firefighters' Pension Board, the City lowered its interest rate assumption from 7 percent to 5.125 percent and extended the funding period by five years through 2023 in Ordinance 122293, which was passed in 2006.

The City added money to the Actuarial Account each year between 1994 and 2008. Since then it has suspended payments for 2009 and 2010 through Ordinance 122859, for 2011 and 2012 through Ordinance 123459 and for 2013 and 2014 through Ordinance 124057. These actions were necessary because meeting the additional contribution targets as last set forth in Ordinance 122293 would have put undue pressure on the General Fund during a period of local and national financial uncertainty.

At the same time several factors had resulted in the need for significant General Fund



contributions, including increases in firefighters' salaries that raised pension benefits beyond what was envisioned when the Actuarial Account was created, and even lower-than-anticipated investment returns from when the funding period was extended in 2006. Current actuarial assumptions are for an investment earnings rate of 5.25 percent annually, while the City's annual investment pool earnings between 2010 and 2013 have been just at 1 percent or lower. In 2013 the City Finance Director with the approval of the Fire Pension Board authorized the City's Department of Finance and Administrative Services to invest the Actuarial Account balances in U.S. stocks and bonds with the intent of maximizing the investment return consistent with State law and at appropriate levels of risk. Now in recognition that the City continues to face in the 2015-2016 biennium, revenue growth forecasts that only just keep pace with the growth in total labor costs or overall operations and maintenance costs, the change in investment approach and changes in the underlying demographics of Fund beneficiaries, this proposed legislation suspends payments for an additional two years through 2016 and calls on the Department of Finance and Administrative Services, the City Budget Office, and the Seattle Firefighters' Pension Board to re-examine the funding basis for the Actuarial Account in 2015.

Please check one of the following:

This legislation has financial implications.

Summary of Changes to Revenue Generated Specifically from this Legislation:

	Revenue Source	2015 Proposed	2016 Proposed
Total Fees and Charges Resulting From Passage of This Ordinance		NA	NA

Revenue Change Notes: NA

Anticipated Total Revenue from Entire Program, Including Changes Resulting from this Legislation:

Fund Name and Number	Revenue Source	Total 2015 Revenue	Total 2016 Revenue
60220	GF	0	0
TOTAL		0	0

Total Revenue Notes:

Other Implications:

- a) **Does the legislation have indirect financial implications, or long-term implications?**
 Depending on a number of economic and demographic assumptions, suspension of the



excess contribution to the Actuarial Account may increase the Level Payment Amount required in subsequent years to reach the full funding goal by the prescribed target date of December 31, 2023.

- b) **What is the financial cost of not implementing the legislation?** This legislation suspends contributions to the Actuarial Account for 2015 and 2016. This is consistent with the 2015 and 2016 Proposed Budget. Without this legislation, significant increases in General Fund payments to the Actuarial Account would be needed. According to the latest actuarial report provided by Milliman, approximately \$1.8 million would need to be placed in the Actuarial Account in each year of the 2015-2016 biennium if this legislation is not approved. This amount would be in addition to the City's required contribution (approximately \$7.3 million) in the 2015-2016 Proposed Budget to pay the current pension obligations in each year. With a suspension of transfers into the Actuarial Account in the 2015-2016 biennium, the Account balance will increase according to its interest earnings.
- c) **Does this legislation affect any departments besides the originating department?**
No
- d) **What are the possible alternatives to the legislation that could achieve the same or similar objectives?** None
- e) **Is a public hearing required for this legislation?** No
- f) **Is publication of notice with *The Daily Journal of Commerce* and/or *The Seattle Times* required for this legislation?**
No
- g) **Does this legislation affect a piece of property?** No
- h) **Other Issues:** None

List attachments to the fiscal note below:



City of Seattle
Edward B. Murray
Mayor

September 22, 2014

Honorable Tim Burgess, President
Seattle City Council
City Hall, 2nd Floor

Dear Council President Burgess:

I am transmitting the attached proposed Council Bill for consideration with the 2015-2016 Proposed Budget. This legislation continues to suspend contributions to the Actuarial Account in the Firefighters' Pension Fund for an additional two years, through 2016. According to the latest actuarial report provided by the City's Actuary, Milliman, approximately \$1.8 million in General Fund resources will need to be placed in the Actuarial Account in each year of the 2015-2016 biennium if this legislation is not approved.

In 1994, the Mayor and City Council passed Ordinance 117216, which directed that funds be accumulated in a separate Actuarial Account within the Firefighters' Pension Fund. The intent of the ordinance was to accumulate sufficient funds in the Actuarial Account by the end of 2018 (extended to 2023 when Ordinance 122293 was passed in 2006) to fully fund all pension obligations owed after that date. The City added money to the Actuarial Account each year between 1994 and 2008, but subsequently suspended payments in 2009 and 2010 through Ordinance 122859, in 2011 and 2012 with the passage of Ordinance 123459, and in 2013 and 2014 with the passage of Ordinance 124057. These actions were necessary as meeting the growing contribution targets would have put undue pressure on the General Fund during the recent period of local and national financial uncertainty.

The attached Bill will not affect the City's obligation to pay the current pension, health, or long-term care benefits of retired firefighters and their dependents, for which appropriations are made in the 2015-2016 Proposed Budget. Thank you for your consideration of this legislation. Should you have questions, please contact Glen Lee at 684-8079 or Dave Hennes at 684-0537.

Sincerely,

Edward B. Murray
Mayor of Seattle

cc: Honorable Members of the Seattle City Council



STATE OF WASHINGTON -- KING COUNTY

--SS.

318499

No. 124638,639,640,641,642,43

CITY OF SEATTLE, CLERKS OFFICE

Affidavit of Publication

The undersigned, on oath states that he is an authorized representative of The Daily Journal of Commerce, a daily newspaper, which newspaper is a legal newspaper of general circulation and it is now and has been for more than six months prior to the date of publication hereinafter referred to, published in the English language continuously as a daily newspaper in Seattle, King County, Washington, and it is now and during all of said time was printed in an office maintained at the aforesaid place of publication of this newspaper. The Daily Journal of Commerce was on the 12th day of June, 1941, approved as a legal newspaper by the Superior Court of King County.

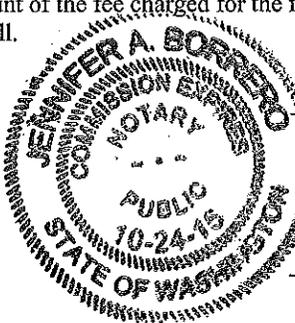
The notice in the exact form annexed, was published in regular issues of The Daily Journal of Commerce, which was regularly distributed to its subscribers during the below stated period. The annexed notice, a

CT: TITLE ONLY ORDINANCES

was published on

12/17/14

The amount of the fee charged for the foregoing publication is the sum of \$89.70 which amount has been paid in full.



[Signature]
Subscribed and sworn to before me on

[Signature]
12/17/2014

Notary public for the State of Washington,
residing in Seattle

Affidavit of Publication

State of Washington, King County

City of Seattle

Title Only Ordinances

The full text of the following legislation, passed by the City Council on November 24, 2014, and published below by title only, will be mailed upon request, or can be accessed at <http://clerk.seattle.gov>. For information on upcoming meetings of the Seattle City Council, please visit <http://www.seattle.gov/council/calendar>.

Contact: Office of the City Clerk at (206) 684-8344.

ORDINANCE NO. 124638

AN ORDINANCE relating to the Joint Training Facility Project; amending Ordinance 121179, as last amended by Ordinance 124038, to extend the term of an interfund loan.

ORDINANCE NO. 124639

AN ORDINANCE relating to the financing of the South Lake Union Streetcar project; amending Ordinance 122603, last amended by Ordinance 123748, to extend the term of an interfund loan.

ORDINANCE NO. 124640

AN ORDINANCE relating to the Firefighters' Pension Fund established under RCW 41.16; amending Ordinance 117216 as last amended by Ordinance 124057 to continue the suspension of contributions to the Actuarial Account for an additional two years through 2018.

ORDINANCE NO. 124641

AN ORDINANCE relating to City employment; amending Ordinance 124035 to remove a sunset date and revise reporting requirements.

ORDINANCE NO. 124642

AN ORDINANCE relating to the Department of Parks and Recreation; establishing the 2015-2016 fee schedule for the use of park properties and other park and recreation facilities and services; superseding previous park and recreation fee schedules; and amending Section 18.28.010 of the Seattle Municipal Code.

ORDINANCE NO. 124643

AN ORDINANCE relating to the organization of City government; creating an Office of Labor Standards; establishing the mission and functions of the Office of Labor Standards; describing the responsibilities and membership of a Labor Standards Advisory Commission; and adding new sections 3.14.934 and 3.14.945 to the Seattle Municipal Code.

Date of publication in the Seattle Daily Journal of Commerce, December 17, 2014.
12/17(318499)