

**RESOLUTION NO. \_\_\_\_\_, SERIES 2014**

**A RESOLUTION PERTAINING TO SEPARATION OF THE COUNTY EMPLOYEE RETIREMENT SYSTEM (CERS) FROM THE KENTUCKY RETIREMENT SYSTEM (KRS) AND CREATION OF AN INDEPENDENT BOARD TO ADMINISTER IT.**

**Sponsored By:** Council Member Miller, Downard, Fleming

**WHEREAS**, CERS provides retiree pension and health benefits to Louisville Metro Government (LMG), its employees and retirees; and

**WHEREAS**, 17% of the participants in CERS are or have been employees of organizations based in Louisville Metro, including LMG, Metropolitan Sewer District (MSD), Transit Authority of River City (TARC), Louisville Water Company, non-teacher employees of the Jefferson County Board of Education, as well as many smaller entities; and

**WHEREAS**, these Louisville Metro-based organizations pay over \$127 million annually, of which LMG contributes over \$73 Million a year, into the CERS Pension Plan; and

**WHEREAS**, CERS is a constituent part of the KRS and managed by the KRS Board of Trustees, which also manages the Kentucky Employee Retirement System (KERS); and

**WHEREAS**, Moody's recent analysis of State credit-worthiness found that Kentucky has the third highest adjusted pension liability relative to revenues with a ratio of 140.9%; and

**WHEREAS**, the investment assets of CERS are comingled with all other constituent systems of KRS, including the KERS which is funded at about 27% versus over 61% for CERS; and

**WHEREAS**, KRS allocates its administrative costs on the basis of Assets rather than Participants, Liability or Payroll, CERS is charged with approximately 67% of Administrative Costs while having only 49% of the Pension Liability; and

**WHEREAS**, due to the low funding levels and negative cash flows of KERS, KRS investment practices are detrimental to the returns CERS could earn if operated as a stand-alone entity that did not simultaneously have to retain large cash positions to meet benefit payments and then enter into high-risk illiquid investments promising high returns; and

**WHEREAS**, concerns over comingling were expressed prior to the \$10 Million payment by LMG to CERS for the Louisville Professional Firefighter Retiree Settlement, which coincided with a reallocation of \$5 Million of CERS assets to KERS and the State Police Retirement System (SPRS) to cover Foreign Currency losses, which resulted from KRS's risky hedging practices; and

**WHEREAS**, Seven Counties Services, a member of KERS, has filed bankruptcy and will soon be in court with KRS over its unfunded pension liability, CERS and KERS will have divergent legal interests, as other non-government entities seek ways to lower their retirement costs; and

**WHEREAS**, under Senate Bill 2, passed by the 2013 General Assembly and signed into law by the Governor, made a number of significant changes, including:

- changed the inviolable contract for new participants and allows the General Assembly to make prospective changes:
- eliminated automatic Cost of Living (COLA) Increases for retirees:
- allows for COLAs if the funding level of the particular system is greater than 100% and subsequent legislation authorizes the use of surplus funds to provide a COLA;
- created a Public Pension Oversight Board with 13 members, at least 7 of which are participants in state retirement systems, but none of which are active participants in the CERS;

**WHEREAS**, many Local government plans around the country are running operations at significantly lower costs with fewer employees per participant than KRS; and

**WHEREAS**, the Government Accounting Standards Board (GASB) Statement #68 requires that by 2015, employers must recognize an unfunded pension obligation (i.e., the “net pension liability”) as a balance sheet liability in their Comprehensive Annual Financial Report (CAFR); and

**WHEREAS**, the estimated Unfunded Pension Liability of Louisville Metro Government at June 30, 2012 is estimated to exceed \$425 Million, which is more than the entire bonded indebtedness of LMG and is over 80% of its annual General Fund Revenue; and

**WHEREAS**, KRS 61.645 requires that CERS “be administered by the board of trustees of the Kentucky Retirement Systems.”

**NOW THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT AS FOLLOWS:**

**SECTION I:** We request that the General Assembly of the Commonwealth of Kentucky revise KRS 61.645 to administratively separate CERS from KRS.

We request that CERS be made independent of the KRS board with its own Board of Directors, none of whom shall be members of the Board of the Kentucky Retirement System.

We request that the Public Pension Oversight Board include a new representative appointed by the Kentucky Association of Counties and one by the Kentucky League of Cities and a participant of CERS elected by the membership.

**SECTION II:** This Resolution shall take effect upon its passage and approval.

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H. Stephen Ott  
Metro Council Clerk

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Jim King  
President of the Council

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Greg Fischer  
Mayor

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Approval Date

**APPROVED AS TO FORM AND LEGALITY:**

Michael J. O'Connell  
Jefferson County Attorney

BY: \_\_\_\_\_