April 30, 2015

R. Dean Kenderdine
Executive Director
Maryland State Retirement and Pension System
120 East Baltimore Street
Baltimore, Maryland 21202

Dear Mr. Kenderdine,

I write to thank you, your staff, and the state's auditor for your time and attention to the pension issues we raised during our recent meeting regarding the system's "dry run" allocation of unfunded liabilities under GASB 68. During that meeting, you and Bill Seymour of SB & Company pledged some additional review of the methodology and approach used in those calculations, and MACo and MML pledged to remain in touch regarding the views of our participating government units (PGUs) who are affected by this policy decision. This letter follows on those conversations.

MACo and MML jointly hope that in your review of the proposed apportionment of unfunded liability across the System, that a "two pool" reporting model is at least seriously considered. As we discussed at our meeting, the administrative decision to recognize the System's liabilities as one sum to be apportioned across all participants belies the longstanding administrative practice that the Municipal Pool (containing the PGUs) is effectively its own entity. This widely held view is supported by statements in the state's own most recent Comprehensive Annual Financial Report, which in referencing these same liabilities gives seemingly clear guidance:

The System is made up of two cost-sharing employer pools: the "State Pool" and the "Municipal Pool". The "State Pool" consists of the State agencies, boards of education, community colleges, and libraries. The "Municipal Pool" consists of the participating governmental units that elected to join the System. Neither pool shares in each other's actuarial liabilities, thus participating governmental units that elect to join the System (the "Municipal Pool") share in the liabilities of the Municipal Pool only. - (page 26 of the System's June 30, 2014 CAFR)

The State Pool is, by all accounts, more deeply underfunded than is the Municipal Pool. Thus, the "dry run" decision to commingle liabilities of the two pools for these reporting purposes results in an arguable overstatement of the municipal share of liabilities. Bolton Partners, a firm representing numerous PGUs on these issues, estimates that the commingling of the two pools causes the PGU share of liability to increase by some $280 million. While our member PGUs recognize that GASB 68 obliges reporting of appropriate liabilities, they understandably seek to avoid reporting figures that are significantly larger than the actual liabilities owed to the Municipal Pool.

The one-pool approach without the adjustments described in Paragraph 120 of GASB 68 also causes irrational outcomes for withdrawn units, some of which operate under standing agreements with the System regarding withdrawal payments to resolve their assigned liabilities. Any calculation of such liabilities that materially betrays the remaining fixed schedule of payments could place those governments in a particularly difficult circumstance regarding their own financial statements.

We hope that both of these issues are in the forefront of your work as you evaluate and consider a final version of the FY 2014 GASB 68 apportionment document.

Along related lines, during our meeting we expressed a mutual interest in communicating the substance of these issues to PGUs and other stakeholders. MACo and MML agree that this is a priority, regardless of the final approach and calculations used in the apportionment.

On behalf of the PGUs, we believe that a clear written statement from the System, written for a lay audience, could be advantageous to all parties. As you articulated during our meeting, the reporting documents have no bearing on the more functional aspects of the Municipal Pool – most notably the determination of contribution rates, or calculation of withdrawal terms. This fact would be a critically important component of any communication about this matter, as it could help dispel any concern from county and municipal officials that the liability reporting represents a "shift" with material or costly impacts on current finances.

MACo and MML stand ready to help however we can with any promotion or education of our members as these decisions are reached.

We again thank you for your outreach, and for the consideration shown by the development and release of a "dry run" document. We hope you agree that our interchange on the issue in advance of a final decision can improve the decision and process ahead.

Michael Sanderson

Executive Director
Maryland Association of Counties

Scott Hancock

Executive Director
Maryland Municipal League

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