

Moody's praises Fung settlement cutting Cranston pensions

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After a rough couple of news cycles, Cranston Mayor Allan Fung has finally gotten some good news.

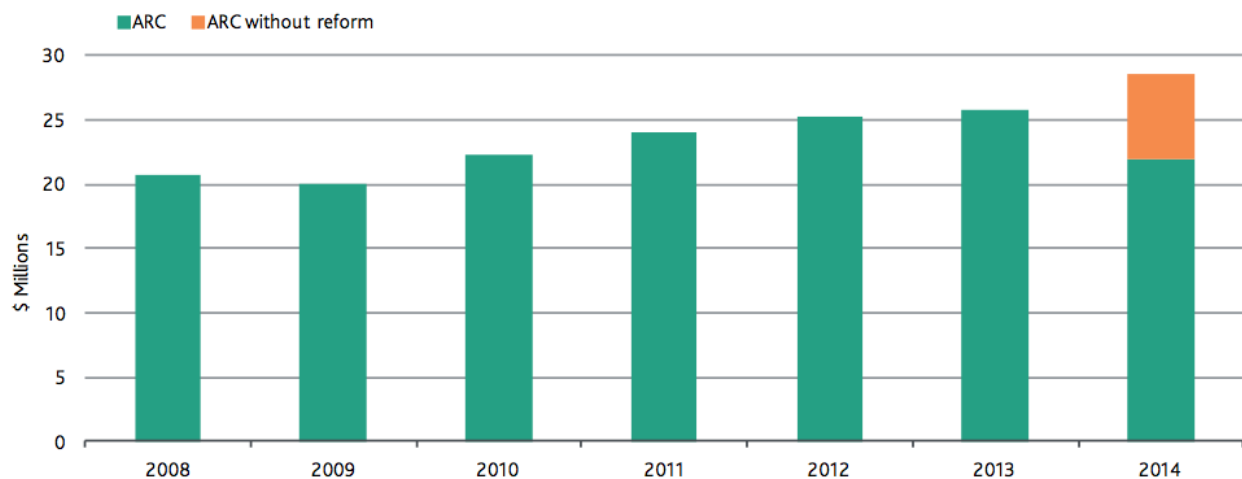
In a short investor note issued last week, Moody's Investors Service analyst Vito Galluccio praised a Jan. 9 ruling by R.I. Superior Court Judge Sarah Taft-Carter [allowing Cranston to suspend pension COLAs biennially and cap them at 3%](#), calling the decision a "credit positive" for Rhode Island's third-largest city.

The changes to the Police and Fire Employees' Pension Plan of the City of Cranston (PFERS) are "credit positive for Cranston because it reduces the city's pension liabilities, lowers the annual required contribution (ARC) to its pension plans and forces the city to fully fund its ARC in future years," Galluccio wrote.

According to Moody's, the changes will reduce the large shortfall in Cranston's pre-1995 police and fire pension plan by about 10% to an estimated \$261 million. By comparison, Treasurer Gina Ramondo's 2011 state pension law reduced the state's unfunded liability [by about 41%](#), and Providence Mayor Angel Taveras's settlement with city retirees reduced the capital's shortfall [by about 22%](#).

As the Moody's chart below shows, the settlement will also reduce the ARC – the amount Cranston has to put into the pension fund – by \$6 million in the 2013-14 fiscal year. The agreement requires the city to contribute 98% to 99.5% of the ARC from 2014-15 to 2017-18 and 100% of the ARC from 2018-19 through 2041-42.

Reforms will Reduce Cranston's Pension ARC (Annual Required Contribution) in 2014



Source: City of Cranston Audited Financial Statements

"The settlement will help sustain Cranston's finances, which has been challenged by growing pension costs and deficits in its school fund," Galluccio wrote. "The city transferred revenues from the general fund to the school fund in 2008 and 2009 to keep the school fund solvent. The general fund has maintained reserves above 10% of revenues since 2007. The school have since repaid the majority of funds borrowed from the general fund by utilizing surpluses in 2012 and 2013."

According to Cranston's most recent financial audit, there were 469 members in PFERS as of July 1, and all but 42 of them were collecting benefits. The plan, closed to new members since 1995, was 20% funded with a shortfall of \$232 million as of July 1.

Cranston contributes to four other defined-benefit pension plans as well: the state-run Employees' Retirement System of the State of Rhode Island (for teachers) and Municipal Employees' Retirement System; the Laborers' National (Industrial) Pension Plan (for most DPW workers and school-bus drivers); and the New England Teamsters & Trucking Industry Pension Plan (for most City Hall and other clerical workers).

In addition, Cranston had promised health and life insurance benefits to 843 active or retired police and fire employees and their beneficiaries as of July 1. The so-called other post-employment benefits (OPEB) plan cost the city \$5.4 million in 2012-13 and had an unfunded liability of \$59 million as of July 1.

The city school department has its own OPEB plan for 1,235 active and retired school employees, which cost Cranston \$1.1 million in 2012-13 and had an unfunded liability of \$13.6 million as of July 1.