



Office of the Auditor General

State of Rhode Island - General Assembly

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VIA ELECTRONIC MAIL ONLY

Representative Stephen M. Casey, Chair
Members of the House Committee on Municipal Government and Housing
Room 101, State House
Providence, RI 02903

Dear Chair Casey and Members of the House Committee on Municipal Government and Housing:

I write in support of House Bill No. 5947, Entitled, *An Act Relating to Towns and Cities -- Audit of Accounts and Installation of Systems*.

I have recommended changes to Rhode Island General Law Section 45-10-15, *Compliance with requirements of "governmental accounting standards board (GASB)" pension funding*, to update terminology related to pension plan funding and to also include a similar statutory requirement for Other Post Employment Benefits (OPEB). The update to Rhode Island General Law Section 45-21-65, *Other post-employment benefits — OPEB trusts*, is intended to remove reference to specific Governmental Accounting Standards Board Statements and generally reference the Governmental Accounting Standards Board requirements.

The inclusion of OPEB in Rhode Island General Law Section 45-10-15 is intended to add oversight and corrective action timing provisions similar to the requirements for pension plan funding, allowing municipalities a reasonable time for creation of OPEB trusts and incremental funding increases within their allotted budgets. Utilizing an OPEB trust enables a municipality to fund OPEB benefits while employees are working, allowing accumulated contributions together with compounded investment returns to pay for OPEB benefits that employees receive upon retirement. The compounded investment returns significantly reduce the employer's contributions needed to fund the OPEB benefits, compared with the amount needed under the Pay as You Go (PAYGO) approach which funds the benefit payments as they are due but does not accumulate additional resources to fund future benefits for employees, an amount represented as the total OPEB liability for those plans.

In September 2024, I issued the Municipality Financial Trend Report for fiscal years 2019 through 2023. Within the summary data for each municipality, pension plan and OPEB plan data elements are reported. It was noted that many municipalities are not funding the OPEB plans at contribution levels necessary to ensure adequate funds are available to pay future benefits, mainly retiree healthcare. As of the report, eleven municipalities and four regional school districts had not yet created an OPEB trust. The funded status, plan fiduciary net position as a percentage of the total OPEB liability, for the majority of the OPEB trust plans, was less than 40 percent with many below 20 percent. It was noted that for many of the OPEB trust plans, the contributions made annually were less than the actuarially determined contribution (ADC).

The objective of amending the current legislation is to provide my office with the statutory authority to begin discussions with municipalities and to consult with them on taking the necessary steps to fund OPEB obligations. Since every municipality's OPEB funding and financial situation are different, the length of time to implement corrective actions will also be different. The proposed legislative changes outlined in House Bill No. 5947 have been crafted to acknowledge this needed flexibility while still allowing my office to begin this important consultation and, as needed, highlight its importance to local government leaders that may not fully understand the significance and long-term financial implications of not advance funding OPEB obligations.

In closing, many of the State's largest communities are currently funding OPEB on a PAYGO basis and their reported liabilities are significant and growing. Improving the funded status of municipal locally administered pension and OPEB plans supports the overall fiscal stability of the municipality, while ensuring funding is available to support the promised benefits. As the Auditor General, responsible for promoting long-term municipal financial stability, I support and need this legislative change to advance these objectives.

Thank you for your consideration of my support for House Bill No. 5947.

Sincerely,

A handwritten signature in black ink that reads "David A. Bergantino". The signature is fluid and cursive, with a large, stylized "D" and "B".

David A. Bergantino, CPA, CFE
Auditor General

C: Joint Committee on Legislative Services