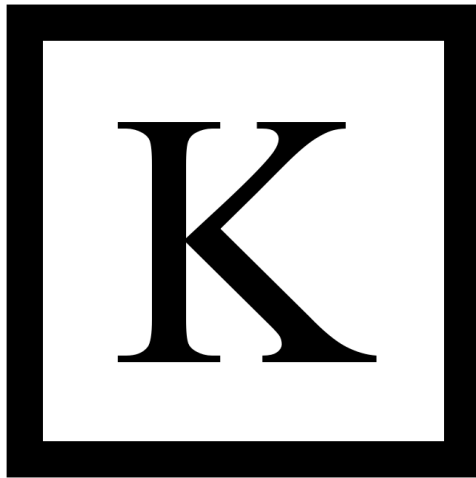


THE KAPOOR COMPANY

ADVISORS & CONSULTANTS



THE KAPOOR COMPANY
www.kapoorco.com
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OFFICES IN NORTH CAROLINA AND PENNSYLVANIA



THE KAPOOR COMPANY

Since 2008, The Kapoor Company has provided governments with objective, straightforward advice that solves workforce problems, improves services and saves money. Having served governments as managers, attorneys and now as independent advisors, we understand the unique challenges they face and the critical role that they play in their citizens' lives. We believe in the high calling of public service and look for clients who are willing to take the steps necessary to make themselves the most effective at what they do.

As former attorneys and government officials, we have advised Fortune 100 companies, states, counties, municipalities, nonprofits and small businesses on a host of sensitive and complicated matters. Vijay Kapoor has mediated two nationally recognized pension consensus agreements among cities and their public safety unions that preserved benefits while stabilizing pension funds. He also served in the administration of Pennsylvania Governor Edward G. Rendell as the Executive Director of the Governor's Office of Management and Productivity. In this role, he led statewide and agency-specific cost savings and operational improvement projects at the Commonwealth of Pennsylvania.

The Kapoor Company specializes in workforce-related matters. Our specific services include:

- Labor Negotiations and Interest Arbitration Support
- Pension/Retiree Health Care Mediation and Funding
- Workforce Costing
- Operational Analysis

We believe that these difficult issues must be addressed by realizing that governments and their workforces need each other. Governments need their employees to provide the services that their citizens fund and expect. Public employees need their governmental employers to provide them a fair compensation package. No one benefits from a fiscally distressed municipality, a seriously underfunded pension fund, or a demoralized workforce. While not easy, we have mediated agreements with governments and employee organizations that stabilized finances and maintained very competitive compensation packages.

We focus on the numbers and take into account how changes impact employees and retirees. We know that our credibility is paramount and work to gain the trust of all of those involved. We are under no illusions as to the difficulties these problems present, but we are convinced that they must be addressed or else the eventual outcome will be much worse for all involved.

***Note:** The Kapoor Company does not provide legal, actuarial, investment or advice related to bond transactions. We are not a "municipal advisor" as defined by the Municipal Securities Rulemaking Board (MSRB).*



MEMBER PROFILES

Vijay Kapoor

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Vijay Kapoor founded The Kapoor Company in 2008. He has spent his entire professional career working on governmental and public sector workforce issues. Prior to rejoining The Kapoor Company, he served as the Director of Workforce Consulting at Public Financial Management. Mr. Kapoor has also served in state government in positions including Executive Director of the Commonwealth of Pennsylvania's Office of Management and Productivity where he led enterprise-wide and agency-specific cost savings projects towards the goal of reaching \$1.5 billion in annual savings. Mr. Kapoor also previously practiced as a labor and employment attorney, where he specialized in public sector labor relations matters.

In 2013, Mr. Kapoor mediated a comprehensive consensus agreement among the City of Lexington, KY and its police and fire unions to address an underfunded pension fund. He and his team worked with the parties to define the scope of the problem, benchmarked the current benefit levels, and identified possible paths to sustainability. The final agreement included changing the pension COLA, maintaining a defined benefit pension plan for existing employees and new hires, and increasing financial contributions by the City. The agreement was featured in *The Bond Buyer* ("A New Path to Reform of Pensions." *The Bond Buyer*. January 31, 2013) and *Governing Magazine* ("Pension Reform Success Stories." *Governing Magazine*. April 1, 2013). In 2014, he also successfully mediated a consensus agreement among the City of Chattanooga, TN, and its fire and police employees and retirees.

Mr. Kapoor is a frequent speaker on pension and retiree benefit issues. He has made the following presentations:

- "Municipal Finance Basics for Arbitrators." American Arbitration Association. Philadelphia, Pennsylvania. October 11, 2013
- "Pension Reform: Doing it Right." Government Finance Officers Association 107th Annual Conference. San Francisco, California. June 4, 2013
- "Compensation and Retiree Benefit Issues." New Hampshire Local Government Center Annual Conference. Manchester, New Hampshire. November 14, 2012
- "Addressing Unfunded Retiree Benefit Liabilities." Association of Public Treasurers of the United States and Canada 47th Annual Conference. Williamsburg, Virginia. August 15, 2012
- "Collective Bargaining Strategies for Employee and Retiree Benefits: What Finance Officers Need to Know." Government Finance Officers Association 105th Annual Conference. San Antonio, Texas. May 23, 2011



Mr. Kapoor has also published articles on public sector collective bargaining including:

- “Bringing Numbers to the Table: What Finance Officers Need to Know About Collective Bargaining,” *Government Finance Review* (August 2011)
- “Public Sector Labor Relations: Why it Should Matter to the Public and Academia”, 5 *U. Pa. J. Lab. & Emp.* 401 (2003)

Mr. Kapoor graduated from the University of Chicago with degrees in economics and public policy studies (with honors) and received his J.D. from the University of Pennsylvania Law School, where he received the labor law prize. He also received a certificate in Business and Public Policy from the Wharton School of the University of Pennsylvania. He has been certified as a Senior Professional in Human Resources since 2008.

PENSION/RETIREE HEALTH CARE MEDIATION AND FUNDING

Addressing underfunded pension and retiree health care plans is one of the greatest challenges facing governments today. Because of people living longer, stock market declines, benefit enhancements and underfunding, many funds simply do not have the money to fully pay for the retiree benefits that public employees and retirees expect. For defined benefit plans, this means that at some point governments and employees will need to contribute more to these plans, that benefits will need to be altered, or some combination of the two.

Our professionals have helped mediate nationally recognized comprehensive agreements among public safety employees and retirees and their governmental employers that preserved a very strong set of benefits and placed the respective benefit fund on much stronger financial footing. We understand how to explain these complicated issues in ways that employees, retirees, taxpayers and elected officials can understand. This is particularly important given the role actuarial assumptions play in reflecting fund health and determining funding levels.

We approach these difficult issues with the following philosophy:

- **Nobody benefits from unfunded retiree benefit liabilities.** Governments and their workforces need each other. Governments need their employees to provide the services that their citizens fund and expect. Public employees need their governmental employers to provide them a fair compensation package. Unfunded retiree benefit liabilities threaten the economic security of retirees, result in ever-increasing costs to governments, and push obligations onto future generations of employees and taxpayers.
- **Retiree benefit funding issues are not simply math problems.** Though addressing retiree benefit funding issues involves calculations, they are not simply math problems in search of a quantitative solution. Employees and retirees depend upon these benefits for their economic security. In some cases, retirees are not eligible for Social Security benefits and thus heavily depend upon their pensions for retirement income. We approach these issues cognizant and respectful of how they will impact employees, retirees and their families.
- **Retiree benefit funding problems get worse with time if not addressed.** We do not subscribe to the view that unfunded retiree benefit liabilities will take care of themselves if left alone for most municipal retiree benefit funds. Even with the stock market near its all-time high, many pension funds remain underfunded and most jurisdictions fund retiree health care on a pay-as-you-go basis. Unless these issues are addressed today, future generations of employees, retirees and taxpayers will be left having to deal with these problems.



- **There is no “one size fits all” solution.** In our work, we have found that every situation is unique and requires its own tailored approach. We do not have a bias for or against any plan type or benefit structure. Rather, we work with parties to try to identify a mutually agreed-upon outcome that addresses the concerns of all involved as best as possible. If that is not possible, we will make our own recommendations.

We have found that successfully addressing unfunded retiree benefit liabilities depends greatly on the process used. In some cases, there is a history of mistrust among the parties. In almost all cases, even discussing these issues understandably raises employee and retiree concerns. As a result, few elected officials see much political upside in taking on these issues. Furthermore, simply writing a report that describes the problem with options or recommendations has very little chance of actually being implemented.

Though it will not be easy, we recommend that governments strive to reach a consensus agreement among the parties on a way forward. We have seen this work best where a public task force analyzed the issues with technical assistance from independent experts who help the group’s members understand the issues and develop options. In addition to educating the public and other stakeholders (most notably current and future retirees), a public process will also encourage these individuals – either by themselves or through their representative organizations – to participate in coming up with solutions so that at the end of the day, it is their solution – not some outside consultant’s. Our professionals have provided task forces with technical assistance and have mediated consensus agreements with cities, employees and retirees.

RELEVANT EXPERIENCE

Lexington, Kentucky

In 2012, Mayor Jim Gray of Lexington, KY, created a public task force and charged it with finding a consensus solution to Lexington’s underfunded police and fire pension plan. In FY2011, the plan had an unfunded liability of \$258 million (89% of the City’s annual budget). The plan’s funding level stood at 59% despite the City floating pension obligation bonds and in FY2012 the annual required contribution rose to \$38.8 million – 13.4% of the City’s annual budget.

In late 2012, the City engaged Public Financial Management (PFM) to provide technical assistance to the task force and its members. Vijay Kapoor led the engagement and helped the parties better understand the changes needed, benchmarked the current pension benefit, provided examples of changes made by other jurisdictions and served as a mediator among the parties. Over several weeks of intensive negotiations mediated by Mr. Kapoor with the City, its police and fire unions, and retiree representatives, the parties reached a consensus that included increasing the City’s contribution to a minimum of \$20 million (it had historically been around



\$11 million), reforming an automatic COLA to be based on pension amounts retirees received, increasing the active employee contribution, reducing the disability pension, reducing the pension multiplier for new hires from 2.5% to 2.25%, and introducing a minimum age requirement of 50 to receive the pension.

These changes were projected to reduce the unfunded liability by 45% or \$134.8 million. Of the 1,487 retired and active police officers and firefighters who voted on the proposal, 76 percent supported it. These changes were enacted into law in 2013.

Chattanooga, Tennessee

In 2013, Mayor Andy Berke of Chattanooga, TN, created a task force consisting of City representatives, employees (police and fire), retirees, pension board representatives, and citizens and charged it with finding a consensus agreement to address the City's underfunded police and fire pension plan. Any changes to the pension benefits needed to be approved by the plan's pension board (which consisted of six employees, one member appointed by the City and one member appointed by City Council) and City Council. Despite the City having always made its full actuarial required contributions, the plan's funded status had dropped from 109.9% funded in 1999 to 51.8% funded as of January 1, 2013. Over that same time period, the City's annual contributions grew from \$3,781,998 to \$14,100,000 and were projected to continue to grow to \$20,000,000 by 2019.

The City engaged PFM to mediate among the parties and provide technical assistance to the task force and its members. Vijay Kapoor led the engagement and served as the technical advisor to the task force as well as the mediator among the parties.

In January 2014, the task force reached a unanimous consensus including phasing in increased employee contributions, maintaining a deferred retirement option plan (DROP) benefit, maintaining a defined benefit plan, reforming an automatic COLA to be based on pension amounts, and implementing a minimum age requirement for most employees. The consensus also improved benefits for those killed in the line of duty and for certain long-time beneficiaries receiving small pensions. These changes reduced the unfunded liability by 37% and improved the plan's funded status from 61% to 71% on an actuarial basis.

These changes were unanimously accepted by the pension board and the City Council.