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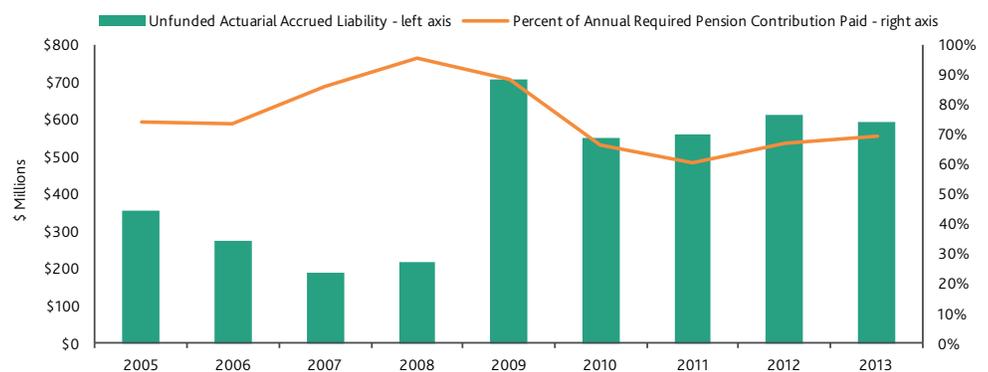
Kansas City, Missouri, Pension Reform Is Credit Positive

From [Credit Outlook](#)

Last Thursday, the [Kansas City, Missouri](#) (Aa2 stable), city council passed ordinances that mandate the full funding of the city's annual required pension contribution (ARC) beginning in fiscal 2015. Although the reform presents near-term budgetary challenges, the measure is credit positive for the city because the increased pension expenditures can be absorbed into the city's budget while simultaneously improving the long-term fiscal health of the city's four pension plans. By addressing its pension funding issues early, the city will avoid greater budgetary pressures in the future.

Last week's passage of reforms for the city's firefighters and employees pension plans follows the [State of Missouri's](#) (Aaa stable) approval of amendments in August to the city's police and civilian pension plans. Cumulatively, the reforms will reduce the city's unfunded pension liability over a 30-year period. The unfunded liabilities of the plans have grown since 2008 (see exhibit), constrained by legislatively defined contribution rates that were inadequate. The city's reported unfunded pension liability was \$611 million as of 1 May 2012, reflecting a funded ratio of 77.5%. In the three reporting years through the fiscal year ended 30 April 2013, the city's adjusted net pension liability has averaged 2.27x annual operating revenue (net of self-supporting utilities) and 4.5% of real estate full valuation.

Kansas City, Missouri's Pension Contributions Fall Short of Actuarial Requirements



Source: Pension plans actuarial valuation reports

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In conjunction with the city's new commitment to fully fund its ARC annually, the reforms will require general and public safety employees to contribute an additional 1% of their base salaries to the pension plan. The additional 1% will bring contributions for fire employees to 10.55%, police to 11.55% and general employees to 5%. New employees hired after 20 April will receive benefits under a new and lower benefit tier, which requires more years of employment for normal retirement eligibility, ad hoc cost of living adjustments and longer vesting periods. Unlike many other local governments nationwide that have passed similar reform measures, Kansas City's pension reform proposals were ratified by all labor units, thereby reducing the risk of legal challenges that threaten the viability of pension reform in other cities.

The city's obligation to fully fund its ARC will require sizable budgetary adjustments, which we expect city management will implement before the beginning of its 2015 fiscal year on 1 May. During fiscal 2013, the city underfunded ARC payments to its four plans by a combined \$24.7 million, a shortfall equal to 5% of its 2013 general fund budget. Contributions to these funds increased in fiscal 2014 following amendments to the city's police and civilian pensions in August. The city's proposed budget for fiscal 2015 incorporates an additional \$14.8 million in pension-related expenditures to achieve full funding of the post-reform ARC for all four funds.

The city has already identified significant budgetary adjustments to accommodate the increased expenditures, including eliminating up to 110 full-time positions, which the city expects to generate savings of approximately \$5 million. In addition, the city expects to restructure appropriation-backed debt through a refunding issuance, which will yield \$7 million in budgetary relief. These pension funding changes and budgetary adjustments will improve the long-term fiscal health and viability of the city's four pension plans, while strengthening its financial profile by reducing its exposure to underfunded pension plans.

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