LEGISLATIVE, FINANCE AND ADMINISTRATION COMMITTEE

The Legislative, Finance, and Administration Committee meeting was held on March 10, 2014, at 6:00 p.m. with Chairman Lynn presiding. Members present were Mr. Hare, Mr. Slavin, and Mr. Rushe. Mr. Shevock was absent. Councilman Dixon and Mayor Carey were also present.

AGENDA ADDITIONS/DELETIONS

Mr. Slavin moved for approval of the agenda, seconded by Mr. Hare and unanimously carried.

FY 2014 - Discussion of Pension Appropriation Changes

Mrs. Donna Mitchell, Controller/Treasurer, reviewed a Presentation entitled "Fiscal Year 2014 Budget, Discussion of Pension Appropriation Changes." Referring to the Police Pension Fund, she noted that the actual percentage of contributions during the last several years had not been at 100%, with the exception of FY 2009. In addition, she explained that the net pension (asset) at beginning of year and end of year was listed on the balance sheet as an asset because it was overfunded in prior years; therefore, during the years that the City was underfunding the pension, the balance was being reduced. Due to this action and the budget constraints during those years, she stated that extra money was not budgeted for the Police Pension Fund. She advised members that during a recent conversation with Fitch Ratings, they relayed concern and took issue with the contributions not being at 100%.

Being aware that the Fund was getting low last year, Mrs. Mitchell stated that the excess contribution was taken from the fund balance, moved to the Pension Funds, and divided in such a way to approximate 100% funding; however, this resulted in only 93% funding of the Police Pension Fund. She recommended a change for FY 2013/2014 to allow for the City's appropriation (excess money) to be divided between the Police Pension Fund and the General Pension Fund. However, due to an oversight, the total appropriation was applied to the General Pension Fund. As a result, she explained that the next budget revision ordinance would include the extra fund balance, in the amount of $764,600, being split between the Police Pension Fund, in the amount of $382,000 and the General Pension Fund, in the amount of $382,600.

Mrs. Mitchell stated that she had informally advised both Pension Boards that too much money was put into the General Pension Fund and not enough in the Police Pension Fund; therefore, she would be reducing the General Pension Fund by $382,000.

Mrs. Mitchell noted that, due to the Electric Carry Forward in FY 2013, the General Pension Fund was funded at 304%. Although Fitch indicated their approval of this percentage, they relayed disapproval for the percentages in the Police Pension Fund. She explained that this presentation was for informational purposes only to make members aware that staff was taking appropriate action to resolve these issues.

Mrs. Mitchell also reviewed a spreadsheet entitled "Civilian Plan Contribution - Budget Revision" depicting the amounts budgeted for the General Pension Fund for FY 2014 and bar graphs reflecting the budgeted amounts during the past several years. She explained that, in the past, the pension contribution had been calculated based on a percentage of payroll. However, since this plan was closed, she decided to calculate the normal cost for the pension plan as a percentage of payroll and use lump sum fund contributions for the unfunded liability rather than a percentage of payroll.

Referring to the City Pension Expense Budget Trend bar graph, she noted that the escalation in fund appropriations (green bar) reflected this change in method. In hindsight, after speaking with Fitch, Mrs. Mitchell felt that the percentage of payroll should have continued to be used in the normal cost. Therefore, she indicated that there may be a change in the manner in which this is calculated and budgeted. She assured members that they would be kept abreast of this decision and any change would be reflected in the City's Proposed Budget.

Referring to the "Civilian Plan Contribution - Budget Revision," Mrs. Mitchell noted that the Annual Required Contribution (ARC) for FY 2013 was $3,217,964 and the original FY 2014 budgeted employer contribution was $3,116,000. She stated that when staff prepared the budget, the allocation for internal service funds was not included. Since the pension monies were pulled and put into a lump sum for the unfunded amounts, she allocated a portion to the Water/Wastewater and Electric Funds, since this was a part of the costs for the service employees in these service departments. In reviewing the manner in which this was done, she discovered that, rather than reducing the lump sum contribution in the General Fund, the internal service allocation should have been reduced. Otherwise, she explained that it would appear that the City did not fund enough of the City's ARC. What should have been done was a billing to the utilities for the monies (increasing the billing revenue) rather than a reduction of the fund expense. To correct this, she stated that a budget revision would be submitted so that the City's ARC would not be affected.

In response to Mr. Lynn, Mrs. Mitchell confirmed that this information was being presented for informational purposes only at this time.

Update on Financing Plan for Garrison Oak Technical Park Project

Mrs. Donna Mitchell, Controller/Treasurer, provided an update to the work being done on the financing plan for the Garrison Oak Technical Park street, storm water, and landscaping project. She had hoped to have a plan to present to members; however, since it had not been completed, she wanted to provide an update on this matter. She advised members that there were two (2) options for financing this project: 1) to bond the project with a municipal debt issue; and 2) to borrow the funds inter-fund by leveraging the reserve accounts. She indicated that staff was researching the second approach as a potential option.

Mrs. Mitchell indicated that discussions had been held with the City's auditor, bond counsel, and electric engineer, as well as the financial advisor. Based on these discussions, she felt confident that there were no legal issues with the City financing the project; however, there were concerns as to how this would be perceived by ratepayers and bondholders. If the City chose to finance the project through an inter-fund loan, she explained that the City would forgo all the issuance costs and receive a greater return on its own money. The City would also need to ensure compliance with all policies, municipal code, and debt covenants, which would include a review of investment, debt, and financial policies. If the City were to establish a formal program for inter-fund borrowing, she stated that some of those policies may need to be changed.

It was Mrs. Mitchell's expectation that the remaining research would be done by March 31, 2014, and that staff would provide a final recommendation to City Council soon after, including any policy change recommendations. Depending on the interest rate and payback period, she noted that the debt service could range from $250,000 to $500,000.

Responding to Mr. Lynn, Mrs. Mitchell stated that, based on discussions thus far, the City's financial advisor appeared to be more against the City financing the project than the other advisors that she had spoken to regarding this issue. Although the bond counsel had no objections, she advised Mrs. Mitchell that the engineer opines on those reserves in their annual report and suggested, therefore, that Mrs. Mitchell hold discussions with the engineer as well. Bond counsel also advised Mrs. Mitchell that some communities were executing such loans at a zero percent (0%) interest rate.

At the suggestion of Mr. Lynn, Mrs. Mitchell stated that she would ask if there had been any negative effects on the bond ratings for other communities that lent themselves money at a zero percent (0%) interest rate.

Mrs. Mitchell advised members that space needs, as well as additional projects, may be considered in the near future. Considering that the City's current debt issue will end in 2017, she stated that if the City chose to finance the Garrison Oak project at this time, this would not prevent the City from combining it with another bond issue in the future and paying the City funds back.

By unanimous consent, the meeting adjourned at 6:14 p.m.

Sean M. Lynn
Chairman

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