LEGISLATIVE, FINANCE, AND ADMINISTRATION COMMITTEE

The Legislative, Finance, and Administration Committee meeting was held on March 14, 2011 at 6:01 p.m. with Chairman Leary presiding. Members present were Mr. McGiffin, Dr. Jones, and Mr. Shevock. Mr. Salters was absent. Members of Council present were Council President Hogan and Mr. Ruane.

AGENDA ADDITIONS/DELETIONS

Mr. Shevock moved for approval of the agenda, seconded by Mr. McGiffin and unanimously carried.

Review and Recommendation - Filling of Critical Positions

During their meeting of February 23, 2009, members recommended approval of a Hiring Freeze for Fiscal Year 2008-2009, but to allow the hiring of critical positions through the review and approval of the Legislative, Finance, and Administration Committee and City Council. It was suggested that there be a "standing" agenda item to consider the filling of critical positions and, if there were no positions to consider, the item could be removed.

Mr. Leary noted that there were no critical positions to be considered; therefore, no further action was required.

Milliman Actuarial Analysis Updates: Overview of Pension and OPEB (Other Post Employment Benefits) Liability for Fiscal Year 2010/11 and Actuarial Pension for Fiscal Year 2010/11 and OPEB Benefit Rates for Fiscal Year 2011/12 Budget

Mrs. Donna Mitchell, Controller/Treasurer, stated that the actuarial analysis presentation to be reviewed by Mr. Scott Porter, Principal, Consulting Actuary, Milliman, Inc., would provide a summary of the analysis, an overview of the steps taken thus far, and recommendations.

Mr. Porter reviewed a Presentation - Pension and Other Post Employment Benefits, Actuarial Valuation Updates for Fiscal Year Ending June 30, 2011. He stated that actuarial valuations were performed for the City's Civilian and Police Pension Plans, as well as the Other Post Employment Benefits (OPEB) Plan. He explained that an actuarial valuation is a "snapshot" of the assets and liabilities of each plan as of June 30, 2010. Based on participant information, the actuarial valuation projects the benefits which would be received, using assumptions regarding when employees are expected to terminate or retire, how long they are expected to collect benefits, etc., and then discounts them all back at specific interest rates to determine the liability. Mr. Porter indicated that this information is then compared to the assets of the plan to determine the funded status.

Mr. Porter advised members that there are four (4) purposes for performing the actuarial valuation:

1) to determine the funded status of the plan;
2) to review the experience of the plan during the prior year;
3) to provide information for financial statements for the City of Dover; and
4) to determine the City's contributions to ensure that the plans are being adequately funded in a uniform manner.

Mr. Porter stated that all actuarial assumptions used to determine the liability of the plan are reviewed in the process of determining the funded status of the plan, and changes are made accordingly. Such changes may include lowering the assumptions used for investment return and salary increases.

Referring to Page 9 of the Presentation, Mrs. Mitchell reminded members of the positive steps City Council has taken regarding funding of these plans and explained staff's recommendations for both pension and OPEB funding, as follows:

1) Staff recommended transferring funds to keep up with actuarial contributions as has been done in previous years. Staff suggested that $732,455 be transferred to the Civilian Pension Plan, with $454,978 coming from the General Fund and $277,477 coming from the Electric Fund this fiscal year.

2) In order to maintain the 10-year phase-in plan for OPEB, staff recommended including the following percentages of base pay for the City's OPEB contributions in the FY12 budget: 6.6% for the General Fund, 5.3% for the Water/Wastewater Fund, and 5.1% for the Electric Fund.

Referring to salary assumptions, Mr. Ruane indicated that the trend for salary increases was less than 4%. Responding, Mr. Porter stated that, although salaries are lower now, the projections performed to determine member benefits encompass the next 5, 10, and 15 years. He explained that the long-term assumption used must be consistent with the underlying inflation assumption, as well as the investment return assumption. He assured members that this will continue to be monitored in the future. Mr. Porter stated that the impact of reducing the salary from 5% to 4% was not determined.

Mr. Ruane felt that it would be beneficial for Council to receive information regarding the salary assumption so that they could determine the future impact of salary increases when they are considered.

In response to Mr. Ruane regarding the positive steps City Council has taken, Mrs. Mitchell confirmed that the Civilian Pension Plan has been closed to new employees since September 2009. In addition, she stated that City Council eliminated Medicare Part B coverage for new employees.

Council President Hogan noted that, as indicated on Page 12 of the General Employee Pension Plan Actuarial Valuation, since July 1, 2006, the value of assets increased for four (4) years, yet during this same period, the actuary liability increased. He questioned why the actuary liability continues to increase if the City's assets increased. Responding, Mr. Porter explained that between July 1, 2008 and July 1, 2010, the increase in assets was $600,000, which he stated was a minimal increase, partially due to investment losses that occurred during this time period. Therefore, he stated, the actuarial value of assets has remained relatively stable during the past three (3) years. It was his opinion that the actual accrued liability is growing because of the additional year of service that members have earned; however, the actual value of assets has not grown to the same extent,

although contributions have been made to help cover what is referred to as "normal cost." Responding to Council President Hogan, Mr. Porter explained that a substantial amount of growth in assets is necessary in order to realize a decrease in liability.

In response to Mr. Ruane, Mr. Porter indicated that many jurisdictions are reviewing the level of benefits they currently provide and considering their ability to afford these levels based on their current funding status. One of the most common approaches taken by municipalities is to close the plan to new hires, which the City of Dover recently did. In addition, he stated that many jurisdictions are reviewing retirement eligibility ages, the timeline when employees are fully eligible for benefits, etc. He explained that the available options vary according to each jurisdiction's individual situation.

Mr. Leary noted that he recently met with Mrs. Mitchell to review this matter and that she provided him a copy of a very helpful article from *Government Finance Review Magazine*, entitled "Strategies to Consider as OPEB Costs Escalate," which discussed creative strategies being developed in other jurisdictions. He requested that staff provide members a copy for their information.

In regard to the staff's second recommendation pertaining to OPEB funding, Mr. McGiffin felt that action would not be necessary at this time, since this matter will be considered during the Budget Review.

Mr. McGiffin moved to recommend that staff be authorized to transfer $732,455 to the Civilian Pension Plan, with $454,978 coming from the General Fund and $277,477 coming from the Electric Fund this fiscal year. The motion was seconded by Mr. Shevock and unanimously carried.

Evaluation of Proposals - Investment Manager and Advisory Services

Mrs. Donna Mitchell, Controller/Treasurer, reminded members that the City issued its original Request for Proposals (RFPs) for investment management services in 2001. The contract was awarded to Wilmington Trust on January 14, 2002, with a one (1) year review and renewal option if results were favorable. At that time, there was no provision for a contract end date. Given recent events in the financial markets and changes in recommended practices of the Government Finance Officers Association (GFOA) and the Internal Auditors Association, staff decided that it was time to rebid this service.

Mrs. Mitchell explained that an outline of the process, including the forms completed for the fee calculations, scoring, and evaluations, was provided to members to demonstrate the diligence staff felt was necessary to assure the City's assets are well managed and protected. In addition, staff provided an explanation for their recommendation.

Mrs. Mitchell stated that staff narrowed the list of providers to three (3) firms: 1) Cutwater Asset Management, 2) High Mark Capital Management, and 3) PFM Asset Management, LLC. She stated that the three (3) firms selected were the most responsive of the lowest cost providers. The proposals

were almost equally matched, with the exception that the PFM Asset Management proposal went above the requirements of the RFP. Staff conducted interviews with the three (3) finalists to determine which firm would be the best fit for the City. Mrs. Mitchell advised members that each firm was provided, in advance, the items to be discussed during the interview. Upon completion of the interviews, staff contacted several of the client references provided in each firm's proposal. All responses were highly complimentary.

Staff recommended awarding the Investment Management Services contract to PFM Asset Management, LLC for a three (3) year period, to start on the date of the contract. The contract can be renewed or extended for two (2) additional two (2) year periods by mutual consent and approval by City Council.

Dr. Jones moved to recommend approval of staff's recommendation, seconded by Mr. Shevock and unanimously carried.

Evaluation of Proposals - Investment Banking Custody Services

Mrs. Donna Mitchell, Controller/Treasurer, advised members that bids were solicited for Investment Banking Custody Services. She noted that all submissions received were from major financial institutions that are capable of managing custody of the City's investment assets; however, Wells Fargo and Union Bank were the two (2) most competitive banks.

Mrs. Mitchell reminded members that the City currently has contracts with Wells Fargo as custodian for three (3) Trust Funds: the General Employee Pension Fund, the Police Pension Fund (closed plan), and the Other Post Employment Benefits (OPEB) Fund. Although the City receives excellent service on these accounts from Wells Fargo, she stated that the Government Finance Officers Association's (GFOA) recommended practice is to diversify assets under custody when possible.

Based on the fees, scores, and GFOA's recommended practice, staff recommended awarding the service contract to Union Bank for a three (3) year period to start on the date of the contract, which may be renewed or extended for two (2) additional two (2) year periods by mutual consent and approval by City Council.

Mr. Shevock moved to recommend approval of staff's recommendation, seconded by Mr. McGiffin and unanimously carried.

Review of Hospitality and Civic Function Policy *(Committee Deferred on February 28, 2011 Pending Additional Information)*

During their meeting of February 28, 2011, members considered a request from Mayor Carleton E . Carey, Sr. to include certain functions offered by the Central Delaware Chamber of Commerce and Kent County Tourism in the City's Hospitality and Civic Function Policy. Mayor Carey noted that these events are not covered under the City's existing Policy. At that time, members deferred action and requested that Mayor Carey provide the cost for each of the events listed and the annual cost for members to attend these events.

Mayor Carey submitted a memorandum providing details regarding the costs associated for members of Council to attend certain functions, as follows:

1.	Central DE Chamber of Commerce Annual Awards Dinner $50.00 x 9ppl	$450.00
2.	Mayors Annual Prayer Breakfast $20.00 x 9ppl	$180.00
3.	Governors Annual Prayer Breakfast $16.00 x 9ppl	$144.00
4.	Kent County Economic Summit $25.00 x 9ppl	$225.00
	TOTAL	$999.00

It was Mayor Carey's feeling that these functions offer a great deal of information for the City of Dover and enhance working relationships that benefit the City economically.

Mrs. Donna Mitchell, Controller/Treasurer, advised members that the City's current Hospitality and Civic Function Policy was written to conform more closely to IRS Regulations, which prohibit attending events or activities sponsored by another organization unless official City business is performed. She noted the Mayor's concern that the City is a member of the organizations listed. Mrs. Mitchell requested that staff be given the opportunity to revise the Policy submit it to members at their next meeting for their review and recommendation to City Council.

Mr. McGiffin moved to recommend deferral of the Review of the Hospitality and Civic Function Policy to allow staff the opportunity to make revisions. The motion was seconded by Dr. Jones and unanimously carried.

FY 2012 Five-Year Capital Investment Plan (CIP)

Due to time constraints, and there being no objections, Mr. Leary deferred review of the FY 2012 Five-Year Capital Investment Plan (CIP) until the next meeting.

Mr. Anthony DePrima, City Manager, noted that staff is in the process of developing a proposed budget. He requested that members contact staff prior to the next meeting if they have any concerns regarding the projects listed so that staff can respond during the meeting.

Mr. Leary stated that this matter would be placed first on the agenda for the Committee's next meeting.

By unanimous consent, the meeting adjourned at 6:57 P.M.

Respectfully submitted,

Thomas J. Leary
Chairman

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