

**SPECIAL CALL CITY COUNCIL MINUTES
TUESDAY, SEPTEMBER 6, 2016 5:15 P.M.
CITY HALL, COUNCIL CHAMBERS, VERO BEACH, FLORIDA**

PRESENT: Jay Kramer, Mayor; Randy Old, Vice Mayor; Pilar Turner, Councilmember, Richard Winger, Councilmember and Harry Howle, Councilmember **Also Present:** James O'Connor, City Manager; Wayne Coment, City Attorney and Tammy Vock, City Clerk

1. CALL TO ORDER

A) Roll Call

Mayor Kramer opened the meeting at 5:15 p.m.

Ms. Cindy Lawson, Finance Director, went over the procedures for holding this budget hearing. She said the first issue discussed at this hearing must be the percent increase in millage over the rolled-back rate needed to fund the budget (if any) and the reason for the increase. At both the tentative and final hearing, the millage rate must be adopted before the budget by separate votes. She said if Council wants to discuss the budget before finalizing and adopting the millage, they can open and discuss the millage Ordinance, table it, open the budget Ordinance, discuss and table it, and re-open and adopt the millage first then the budget. She said Council must take comments and the general public is allowed to speak and ask questions before the Council adopts the Ordinances. Before adopting the millage levy Ordinance, either she or the Clerk must read millage Ordinance Sections I and Section II into the record after the motion and before the vote.

2. PUBLIC HEARINGS

A) An Ordinance of the City of Vero Beach, Florida, Providing the Levy of Ad Valorem Taxes for the Fiscal Year 2016-2017 at a Millage Rate of 2.5194 which equates to \$2.5194 per \$1,000 of Assessed Property Value.

The City Clerk read the Ordinance by title only.

Ms. Lawson gave a recap of the decisions that were made at the Council budget workshops held in July. She said the proposed tentative budget is balanced in the City's General Fund at the millage rate of 2.5194, which is 10.05% greater than the rolled-back millage rate of 2.2894 mills. This millage rate generates ad valorem tax revenue that is \$588,000 higher than last year's tax levy. She said in the tentative budget, the increased tax revenue has been used primarily to fund the following:

- 1) Creation of an Other Post Employment Benefits (OPEB) trust fund to fund expenses and liabilities for retiree health insurance premium subsidies.
- 2) One new position in the City Attorney's department.

- 3) One new position in the Planning department.
- 4) One new position for the Public Works in survey & engineering.
- 5) One new position for Public Works grounds maintenance (previously approved by Council as part of grounds maintenance contract award).
- 6) An increase of 1% in health insurance rates.
- 7) A transfer to the Marina Fund to support capital improvements and repairs.

Ms. Lawson said that salaries have been updated to reflect a 1.5% increase. The “pay as you go” funding of retiree health insurance premiums has been replaced with contributions to an Other Post Employment Benefits (OPEB) trust fund to fund expense and offset liabilities associated with the City’s portion of retiree health insurance premiums. In the General Fund, State revenue sharing sources have been updated to match the latest Department of Revenue forecasts. In the General Fund, Capital and Construction revenue from the one cent sales tax was increased by \$118,000 based on the latest Department of Revenue and annual street resurfacing was increased by \$236,402 from a combination of the General Fund excess fund balance transfer (\$118,402) and increased one cent sales tax (\$118,000). She said the budget represents Council’s policy direction to provide a balanced budget while reducing overall City positions and improving efficiencies, as well as addressing long term liabilities.

Mrs. Turner clarified for the public that with staffing, they were increasing four (4) people in the General Fund. Also, the transfer from the electric utility was leveled off to last year’s contribution, which means an increase to the overall 6% transfer that they normally get from the electric fund.

Mr. Howle asked if they fund the OPEB trust is there any kind of penalty for funding it early.

Ms. Lawson said no. She explained when the actuary makes a calculation every year to let the City know how much money needs to be put into the fund they just needed a base for how long the time can be stretched in order to fund it.

Mrs. Turner asked Mayor Kramer if they could table the millage rate discussion and move on to the budget.

Mayor Kramer suggested having public comments first on the millage Ordinance.

Mr. Ken Daige asked if once the overall discussion has taken place, will the public have a chance to comment.

Mayor Kramer told him yes. He explained that Council would table discussion of this millage Ordinance, discuss the budget Ordinance and then come back and vote on the millage Ordinance.

Mr. Daige asked Ms. Lawson if there were a lot of the other cities funding the OPEB like what has been proposed by this City Council. Ms. Lawson explained that it is a mixed bag of how

other cities feel about it. She said it has its pros and cons. She expressed that it was not mandated by the State of Florida to have to do it. They have left it up to the individual government entities. She knows that Indian River County and Indian River Shores are both handling it this way.

Mr. Daige asked how much will this year's contribution be.

Ms. Lawson said that now it is about \$1.5 million Citywide and around \$750,000 of that is in the General Fund.

Mr. Daige then asked with the \$1.5 million once it is funded going forward the following budget year, will the same amount have to be funded every year. Ms. Lawson said that would be determined by the actuary. She said it could go up or down. Mr. Daige asked Ms. Lawson to explain the 27 years again. Ms. Lawson said that the 27 years is the time frame that they gave the actuary for the liability to be fully funded. She said right now the total liability sits at about \$35 million. This is the time frame that they would have accumulated \$35 million in the trust and have a 100% funding against the liability.

Mr. Daige asked what was the advantage to the City and the savings in doing this.

Ms. Lawson explained that the advantage to the City will come over time. She said for the first number of years there is no advantage in the amount of residual funding because it will be so small and it will not make a difference. She said where it starts to matter is when they get to the end of the 15-year time frame where enough money has accumulated, then there will be substantial earnings on the money. Mr. Daige asked if it was fair to say that the City will see some financial benefits in about 10 years. Ms. Lawson said somewhere between the 12-year and the 27-year mark they will start to see some advantages. Mr. Daige asked if they go through another recession how much would this process hurt the City's finances because what he is understanding is once you start this, then they are obligated to continue contributing every year. Ms. Lawson explained the most important thing to keep in mind is that the City paying employee health insurance subsidies and money they owe to the health insurance premiums is not something new. She said what they are doing here is adding to that in order to create a trust so in the long term it will actually cover those liabilities. She said it is kind of like what they did with the defined benefit pension plan. They knew that by freezing their pension plan it would actually cause costs to go up in the short term. She said this is a policy decision and must be looked at in the long term. She said there is no benefit to come from this for quite some time. Mr. Daige asked Ms. Lawson what kind of feedback she was hearing from other Financial Directors around the State to handle the OPEB this way. Ms. Lawson reiterated that it was a mixed-bag. She does not necessarily see the benefit of it versus "pay as you go." However, after spending some time with their actuary and looking at it, she can see the long term benefit of having enough funding to defray the costs.

Mrs. Laura Moss, Chairwoman of the Utilities Commission, asked Ms. Lawson to explain the history of building up this unfunded liability over a period of time and the mechanism by which it happened.

Ms. Lawson explained this goes back to being an accounting pronouncement. She said all cities that pay a part of their health care subsidy have done this for years. She said every year they get a quote for their health care costs, they figure out how much is their share and they pay it. It was probably four (4) years ago that the Government Accounting Standard Board (GASB) decided they felt that there was a long term liability associated with the promise to pay their share of the health insurance costs that should be booked on the financial statements. She said the biggest issue she has is that the liability is made up of the actual present value of the stream of payments they are actually going to pay.

Mrs. Turner commented that simply this is a way for the City Council to meet the promises that they have made to their employees. She said they have told their employees that they are going to have these health benefits and now they need to meet that promise. The way to do it would be to set up a trust fund in order to ensure that the money will be there to meet those obligations. She said life expectancies are increasing, health care costs keep going up and the OPEB liabilities are increasing about a million dollars a year and this is a way to help control this \$36 million growing liability that the City is going to face.

Mayor Kramer stated that it is a method of payment. He said they choose to pre-pay or they pay as they go.

Mr. Howle commented that it is also to keep the debt from increasing over time.

Ms. Lawson explained the total liability went down by \$20 million about two (2) years ago when they made some changes to the health insurance plan. She said this is really a method of payment.

Mrs. Turner made a motion to table the millage Ordinance. Mr. Old seconded the motion and it passed unanimously.

B) An Ordinance of the City of Vero Beach, Florida, Adopting the Annual Budget of the City for the Fiscal Year beginning October 1, 2016 and Ending September 30, 2017; Appropriating funds for the Operating Expenses, Supplies, and Personnel, and otherwise appropriating funds for the Efficient and Effective Operation of the Government of the City of Vero Beach and its Departments; Such appropriations being from anticipated revenue; providing a means to amend the Annual Budget to carry forward the funding of Purchase Orders, Work Orders, and Grants outstanding as of September 30, 2016; Providing a means to amend the Annual Budget to reflect Grants received after September 30, 2016; and authorizing the Transfer of Funds Appropriated so long as the total combined appropriations shall not be increased thereby; Providing an Effective Date.

The City Clerk read the Ordinance by title only.

Mr. Herb Whittall requested that Council keep the maintenance of their different facilities up to date.

Mrs. Turner commented that there are City Police Officers with over four (4) years experience being paid the same as entry level Police Officers. They have one (1) of the top police forces as far as education goes, they try to hire the best candidates out of the Police Academy, they require college education, they secure safety in this community and are putting their lives on the line every day. These days the lack of respect for law enforcement is frightening. The City Police Department has one of the highest case clearance rates of any police force in the State of Florida. Mrs. Turner commented that many of their Police Officers have obtained master degrees and if they are to maintain this level, then they have to fund their Police Department. She said in speaking with Detective Kmetz, they probably are looking at \$100,000 to get their step program and raises distributed. She suggested in order for this to happen that they eliminate the proposed position in the City Attorney's office and possibility the one in the Public Works Surveying department. She recalled the benchmark study that was done in 2012, which showed that Vero Beach had one of the highest budgets of the City Attorney's offices. She said it is now \$530,000 and at that time it was \$560,000 and the average budget for a City Attorney's office was \$320,000. She said they are out-sourcing most of their legal work. As far as the surveying position goes, there are plenty of surveyors in town they could contract with. She felt it was of high importance that they take care of their Police Officers.

Mayor Kramer commented that he would not disagree with the comments made by Mrs. Turner regarding their Police Officers. He expressed how important their Police Officers are. However, he did not know where they would get the money from to increase their salaries. He said as far as the legal department goes, he does not think that they have lost any of their cases.

Mrs. Turner commented that all that litigation is being handled by outside attorneys. She does not believe that their City Attorney has litigated one case.

Mr. Wayne Coment, City Attorney, stated that there is very little litigation that they are doing in-house. He said before Mr. Vitunac left the City, there used to be a litigator in the attorney's office and that was him. Then when Mr. Vitunac left there was no longer a litigator because he took the position of City Attorney and his original position has never been filled.

Mrs. Turner recalled that when they hired Mr. Coment as the City Attorney, he said the advantage that he brought to the position was that he was a litigator.

Mr. Coment expressed that he was litigating back then. He said for a small City they have an over abundance of litigation that occurs.

Mr. Howle asked how difficult would it be to get to this \$100,000 as just mentioned by Mrs. Turner. He asked if all the positions mentioned have to be eliminated in order to reach that goal.

Ms. Lawson explained if they look at the memo that was provided to them it shows the increase to each department. However, she cautioned them that the City Attorney's department charges out almost half of their costs to other departments so even if that position is eliminated, it would be a net of \$30,000 in the General Fund. She said it would be the same thing with the Public Works Surveyor & Engineering position, which may get them about \$22,000.

Mr. James O'Connor, City Manager, stated that the total Union request was \$140,000. He asked if that was what they were talking about funding. He understands the dilemma of the Officers who have been here four (4) years making the same as a new hire.

Mrs. Turner commented that what she received from the Union Representative was if they could get up to \$100,000, then the Police Officers would be taken care of.

Mr. O'Connor thought they also included in there the step system and in the past, the instructions given to staff from the Council was that they did not want to implement the step system. He asked if this has changed.

Mayor Kramer recalled that they have already given the Police Department additional funds.

Ms. Lawson said the amount was 1½% with their instructions to take the starting salaries up to \$38,000 and then distribute the rest of the money, which amounts to around \$34,000.

Mrs. Turner stated that she was looking for \$100,000 total. This is still with the stipulation that the starting salaries be increased. She said if they could eliminate those two (2) positions in the General Fund and use the money saved by doing that, then that would be her preference.

Mr. O'Connor commented that he just heard that the City of Sebastian is now hiring their new Police Officers at a starting salary of \$40,000.

Mrs. Turner said that they are trying to hire the top candidates to be Police Officers and in order to do that, the starting salaries have to be raised. She reiterated the problem she has is Police Officers that have been employed for four (4) years are making the same salary as new Police Officers just being hired.

Ms. Lawson commented that they are talking about 16 Police Officers in that category that are below the entry level. She said the real question is are they talking about adding enough money for an across the board increase, which would probably amount to 3%.

Mr. Old recalled that they discussed at the budget hearings that they did not want to single out a group of employees and give them more money than other employees.

Mrs. Turner expressed that they are talking about the safety of their community. She said they are talking about highly trained individuals.

Mr. Old agreed completely with Mrs. Turner, but said the same would be for some of their employees in the Transmission & Distribution department.

Mrs. Turner disagreed. She said those employees were not putting their life on the line for the safety of their community.

Mr. Winger mentioned that under the cash reserve policy, they are going to end up \$200,000 better than the \$133,000 funded this year. He said by the time they hit six (6) months, they will have more cash available. He realizes any money in this fund has to be used for capital expenditures, but they could easily move money around and find the \$60,000. He said the cash balance will continue to grow.

Ms. Lawson explained that the cash reserve Resolution is pretty specific as to how the access money gets calculated.

Mr. Winger pointed out that there were expenditures coming out of general revenues that are going into construction, etc.

Mr. O'Connor stated that a lot of the construction is paid by other tax efforts that are limited to the scope on how the funds can be spent. The fund balance issue is one of those things where you don't want to invest in reoccurring costs. He said if Council wants them to continue budgeting conservatively, then that it was they have to do. He said if they are not going to get criticized at the end of the year if they spend more then they take in, that is another way of budgeting. He asked what their target was in this situation.

Mrs. Turner commented that it is to make their Police Department competitive and an attractive place where they can hire the best candidates and maintain them.

Mr. O'Connor asked if they were also talking about increasing the pay for Sergeants and Corporals.

Mr. Winger did not want to eliminate the new positions being requested and agrees with Mrs. Turner's suggestions for the Police Department. He said what is going to happen and it happens every year is that by the time they get to January, there will be a surplus of salaries in the Police Department. He asked if they could spend that money.

Mrs. Turner said these are positions that they have not been able to fill and that is the problem.

Ms. Lawson answered Mr. Winger's question about spending that money. She said that they could not according to their adopted fund balance Resolution. She said they could be less conservative in their budgeting and she would not perpetually agree that they are going to come in under budget.

Mr. O'Connor felt that allocating \$100,000 was not addressing the issues that they have. He wanted to know how they wanted to breakdown the distribution of these funds.

Ms. Lawson explained if there are five (5) positions open, then those five (5) positions have to be budgeted for.

Mr. Winger stated that he did not want to make the changes to the budget, but he was willing to be optimistic.

Mrs. Turner felt that there would have to be a change to the budget.

Mayor Kramer suggested eliminating some of the positions that have been unfilled for the last two (2) or three (3) years. Ms. Lawson explained these positions have not been unfilled for the last couple of years. She said there are just periods when the positions have not been filled.

Mr. O'Connor said they need to decide what they want to do and then decide on a budget for whatever it is. He asked are they giving across the board pay raises, singling out the Police Officers that have been here three (3) or four (4) years and will be making the same as newly hired Police Officers.

Ms. Lawson told Council if they wanted to give staff the direction to find the money in the budget, then they can find it. She said if their goal is to address the Police Officers who have been employed for a few years, then there are 16 Police Officers who are at that starting salary. She said if the goal is to address their pay then that is what needs to be done and they need to decide an amount they want to increase their salaries to. She said if they add \$66,000, there will be enough money for an across the board raise and implementing the step system again.

Mayor Kramer said this would not change the bottom line of the budget. He said this could be done as a budget amendment. He said they are set on where the millage is going to be.

Mr. O'Connor commented they have received information from the Union and he asked if they wanted to use the numbers that the Union has supplied them with or do they want to increase the salaries of those Police Officers who are making the same as newly hired Police Officers.

Mrs. Turner commented that she was looking at the starting salary of \$38,000 and wondered if they were competitive in the market in order to get the best candidates that they can. She wanted to make sure that they could continue to maintain a strong educated police force for their community.

Mr. O'Connor recapped what Council wanted to do. He said any Police Officer being paid \$38,000 would get an additional pay raise taking them to \$40,000. Then the new Police Officer hiring salary would be \$38,000 and this would be effective October 1, 2016.

Mr. Winger said if that is the will of the Council he will make that in form of a motion.

Mr. Winger made a motion that anyone as of October 1st making \$38,000 in the Police Department will go to \$40,000.

Ms. Lawson explained that they first need to adopt the millage Ordinance.

Mr. Winger withdrew his motion.

Mr. John O'Connor encouraged the Council to support the Police Officers anyway that they can. He said they should not be comparing their job to any other occupation because it is a much different job.

Mr. O'Connor understood that staff needs to be prepared to add another \$32,000 to the budget in order to meet these requests.

At this time in the meeting Council tabled the discussion of the budget and went back to adopting the millage rate Ordinance.

Mr. Winger made a motion to adopt the Ordinance of the City of Vero Beach, Florida, providing the levy of ad valorem taxes for the fiscal year 2016-2017 at a millage rate of 2.5194 which equates to \$2.5194 per \$1,000 of assessed property value. Mr. Old seconded the motion.

The City Clerk read Section I and Section II from the Ordinance into the record.

The Clerk polled the Council and the motion passed 4-1 with Mr. Howle voting yes, Mr. Winger yes, Mrs. Turner yes, Mr. Old yes, and Mayor Kramer no.

At this time Council returned to discussing the budget Ordinance.

Mr. Winger made a motion to adopt the budget Ordinance as presented tonight with the amendment that 16 Police Officers as of October 1st salaries that are now at \$38,000 be taken to \$40,000. Mr. Howle seconded the motion.

Ms. Lawson explained the additional cost would be about \$34,000 by the time they add payroll taxes. She said they could get to this request for additional funds by reducing the estimated professional services line item from \$100,000 down to \$66,000. She said this would be the same money that they budgeted last year. That would be her best suggestion to amend the budget to simply cover this.

Mr. Winger amended his motion to include the additional funds requested would come from the professional services line item with costs in that account being reduced from \$100,000 to \$66,000. Mr. Howle seconded the amendment to the motion. The motion passed 4-1 with Mr. Howle voting yes, Mr. Winger yes, Mrs. Turner no, Mr. Old yes and Mayor Kramer yes.

Mrs. Turner explained the reason she voted no on the motion was because even though property taxes have increased and they are gaining additional income to the City by \$248,000 they are still increasing their transfer from their electric utility by \$250,000. She said now they are getting up to 6.2%. She felt this was a dangerous trend for them to be doing. She also objected to the addition of personnel included in this budget. She does not fill that these additional employees were necessary.

3. PUBLIC COMMENT

There were no further comments from the public.

4. ADJOURNMENT

Tonight's meeting adjourned at 6:11 p.m.

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