

FINANCE COMMISSION MINUTES
Monday, May 26, 2016 - 2:00 p.m.
City Hall, Council Chambers, Vero Beach, Florida

PRESENT: Chairman, Peter Gorry; Vice Chairman, Glen Brovont; Members: Kathryn Barton, John Smith, Nathan Polackwich and Alternate Member #1 Daniel Stump **Also Present:** Finance Director, Cindy Lawson and Deputy City Clerk, Sherri Philo

Excused Absence: Victor DeMattia

1. CALL TO ORDER

Today's meeting was called to order at 2:02 p.m.

2. APPROVAL OF MINUTES

- A) **February 8, 2016 – Regular Meeting**
- B) **May 2, 2016 – Joint Utilities/Finance Commission Meeting**

Mr. Brovont made a motion to approve the minutes of the February 8, 2016 regular Finance Commission meeting and the May 2, 2016 joint Utilities/Finance Commission meeting. Mr. Smith seconded the motion and it passed unanimously.

Mr. Gorry reported that the Utilities Director and City Manager were not available to attend today's meeting. Therefore, the presentation on the Electric Optimization Study that was recently given to the Utilities Commission would be scheduled for a future meeting. He said that he asked the City Attorney to attend today's meeting to give an update on various litigations and other matters involving the utilities.

Mr. Wayne Coment, City Attorney, reported that there were two petitions filed to the Supreme Court by Indian River County in which the Supreme Court found in favor of the City. The Indian River Shores lawsuit that is in the Circuit Court has been whittled down to two (2) main issues, which are: 1) are the City's rates reasonable and 2) at the end of the current Franchise Agreement, is there a change in the use of any rights-of-way. He reported that this is still in the discovery stage and a trial date has not been set. He said that he and the City Manager met with the Indian River Shores Town Manager and Town Attorney and they agreed to delay the City's potential challenge to Indian River Shores' Resolution #520 regarding Indian River Shores regulating the City's rates and operations within the Town.

Mr. Gorry reported that the City Council agreed to have City staff and the Attorneys for the City meet with the Florida Municipal Power Agency (FMPA), Orlando Utilities Commission (OUC), Florida Power and Light (FPL), and Indian River County regarding the full sale of the utilities.

3. PUBLIC COMMENT

None

4. FINANCE DIRECTOR'S MATTERS

A) FY 15-16 Second Quarter Financial Report and Variance Analysis

Ms. Cindy Lawson, Finance Director, went over the FY 15-16 Second Quarter Financial Report with the Commission members (on file in the City Clerk's office).

Mr. Gorry referred to the *Pooled Cash and Investments Balance by Fund at March 31, 2016* located on page (8) of the report. He said the Marina Fund shows \$418.00 and they have over \$300,000 dollars of debt payment every year.

Ms. Lawson explained that the debt service of the Marina is due on October 1st of each year. Once they make that payment they spend the next 12 months climbing back out of the hole building enough funds to pay the next debt service payment. She said in this year's budget, the City Council asked staff to propose a way they could begin to help the Marina with that burden by either providing them with funds for capital improvements or by figuring out a way to distribute the debt service payments to other funds.

Mr. Stump referred to page 54 of the report. He said the Cash Carry Over shows a negative amount of \$42,880 dollars.

Ms. Lawson explained that with these funds, a negative cash carry over is actually an increase to the fund balance and a positive cash carry over means they are using the fund balance as a revenue source.

Mr. Brovont said the Marina is a very valuable asset and with interest rates as low as they are the question he has is why doesn't the City refinance and extend the terms. He said that he ran the numbers and it looked like they could do it.

Ms. Lawson said they have looked at that and she thought the 2007 A Debt was one that doesn't have a call provision in it without a penalty. She said that she would double check on it.

At this time, Ms. Lawson briefly went over the variance analysis with the Commission members (attached to the original minutes).

B) FY 15-16 Second Quarter Electric Utility Rate Sufficiency

Ms. Lawson went over staff's report on the FY 15-16 Second Quarter Electric Utility Rate Sufficiency with the Commission members (attached to the original minutes). She reported that staff is recommending that the Purchase Power Cost be decreased from \$65.15 per 1,000 kWh to \$63.15 per kWh. She said that this would be going before the City Council for approval at their June meeting.

Mrs. Barton made a motion that the Commission supports staff's recommendation of the rate reduction. Mr. Smith seconded the motion and it passed unanimously.

C) Recommendation on Fund Balance Policy

Ms. Lawson briefly went over the final version of the proposed Fund Balance Policy with the Commission members (attached to the original minutes). She reported that the Finance Commission passed a motion to approve adopting the Fund Balance Policy as an Ordinance at

their February 8, 2016 Finance Commission meeting. She said that she spoke with the City Attorney who pointed out that Ordinances are restricted to being official legislative actions that are enforceable as local law. Resolutions are used when the governing body wants to express their intent for some matter of administration and not the law. He (City Attorney) suggested that because this might be a work in progress that this should be a Resolution rather than an Ordinance.

Mr. Stump asked Ms. Lawson if she has seen any unnecessary or reckless use of the Fund Balance by the City Council in the last ten years.

Ms. Lawson said that she has been with the City for five years and in her historical data the Fund Balance has gone down as many years as it has gone up. She noted that it typically was not part of the adopted budget, but it has been used for things that come up during the year, such as the hurricanes of 2004.

Mr. Sump said it was used last year.

Ms. Lawson said it was not used.

Mr. Brovont explained that it did come up in the budget where dipping into the funds was allocated, but after further discussion it was pulled back out.

Mr. Stump said then the City made a decision not to go into the reserves without a Fund Balance policy, he asked doesn't that belie the argument that they need a fund balance policy.

Ms. Lawson explained that the City Council made the decision and stated that they were not going to do it at that time, but that they wanted a Fund Balance policy before the next year. She thought the City Council wanted to wait until they had a policy in place before they do anything with Fund Balance.

Mr. Stump felt that this makes it easier for the City Council to raise the mileage.

Ms. Lawson explained that nothing they adopt can restrict the City Council's ability to set budgets and mileage rates as they see fit.

Mr. Brovont made a motion that the Commission accepts the Fund Balance Policy as a Resolution verses an Ordinance. Mr. Smith seconded the motion and it passed unanimously.

D) Presentation of Comprehensive Annual Financial Report (CAFR) for FY Ended September 30, 2015 (Previously Distributed)

Ms. Lawson gave an overview of the Comprehensive Annual Financial Report (CAFR) for FY ended September 30, 2015 with the Commission members (on file in the City Clerk's office).

*Please note that questions and discussions took place throughout Ms. Lawson's overview.

Mr. Brovont referred to page 97 of the CAFR. He said it shows \$114 million dollars in total pension fund assets and it doesn't show that there is \$38 million dollars of liabilities over and above that just in pension funds.

Ms. Lawson said the City Council froze the Defined Benefit Plan, so the liability is now fixed.

Mr. Stump questioned how they fix that liability. He asked if the City makes all the required payments that the actuaries say the City has to make, how do they get a liability.

Ms. Lawson said because of bad years in the stock market.

Mr. Stump asked who determines what the outgo is going to be on the pension payments. He referred to the Police Officers and asked when they retire how does the City determine the amount they are to earn each year.

Ms. Lawson said it depends on the plan. She said the Police Pension Plan is by Ordinance, which states for each year of service they receive (x) amount of a multiplier of their past five (5) highest years average salary. She said there are other pension plan documents that are adopted by Resolution, such as the one freezing the General Employee Pension Plan Fund. Therefore, depending on what kind of employee you are essentially it boils down to two (2) things, which are 1) how long you have been with the City and 2) what your five (5) best year's salary was.

Mr. Stump said then it is fairly easy to determine the monetary obligation the City has to pay out.

Ms. Lawson said there is some data in the actuarial evaluation that plays out across 30 to 50 years the discount rates, the liabilities, the interest earnings, etc. Also, the discount rates the City used for a long time mirrored the Florida Retirement System, which they are at seven and three-quarters percent. Every single one of the City's Pension Plans have lowered their discount rate consistently for the past three (3) or four (4) years. As a result of the freeze of the General Employee Pension Plan the City was required by the State of Florida to lower their discount rate to six and a half percent.

Mr. Polackwich said the City has the formulas that determine how much people are going to be paid out. But, this is way into the future. Therefore, the question is what rate they discount that back to the present. The bigger the discount rate they use, the smaller the liability. He felt that this was something that the Commission needed to spend a fair amount of time on.

Mr. Stump said the issue of pension liability almost justifies having a subcommittee of the Finance Commission.

Mr. Polackwich asked has the City considered a buyout to basically end the Pension Plan.

Ms. Lawson answered yes. She said both the City's Actuary and Investment Advisors have told them it would be something that maybe in another three (3) or four (4) years might be worth their wild, but given the current volatility and the unfunded liability it would be very expensive. She said they talked about this before the freeze of the Plan and have discussed looking at it again.

Mr. Polackwich asked what will happen in three (3) or four (4) years that is different from today.

Ms. Lawson said the City would be about half way to being fully funded.

Mr. Brovont said that he has been concerned about this all along.

Mr. Smith said it is difficult to identify and stick to an issue with the full Commission. He asked is it possible to form a subcommittee to identify things that have to be decided.

Ms. Lawson said the City established a General Employee Pension Committee (GEPC) and one option would be that the Commission members attend their meetings.

Mr. Smith said buyout of the Plan is a possibility.

Mr. Polackwich said the City has property for sale, such as the Dodgertown property and he felt once these properties sell it might be worth biting the bullet and using that money.

Mr. Gorry said there was discussion to consider using anything they receive from the sale of the Dodgertown property to address the Other Post Employee Benefits (OPEB). He felt it would be helpful to have the Commission members attend the GEPC meeting and then reconvene prior to the City Council Budget Hearings. He said the Commission could have a spokesperson, along with Ms. Lawson, to discuss with the City Council the pros, cons, and options regarding both the Pension and the OPEB.

Ms. Lawson reported that the City Council instructed her and the City Manager to include the funding of an OPEB liability in the first draft of the budget. She noted that if the Commission members are unable to attend the GEPC she would add to the agenda a discussion of the buyout of the Pension Plan.

Mrs. Barton asked are they talking about lump sum payments to participants.

Ms. Lawson answered no. She explained that they were discussing someone purchasing the Plan from the City and to fund it.

Mr. Richard Winger, Councilmember, said according to a presentation that he recently attended, there are two (2) governments that froze their plan, which were Jupiter, Florida and the City of Vero Beach and one (1) government that had a buyout, which was the Town of Indian River Shores. He suggested that the Commission assign one (1) member to look at the funding they will receive with the sale of the Dodgertown property, one (1) member look at the buyout option, etc., and then they can discuss their findings at a Commission meeting. He felt the timing was perfect because in July they will be working on the budget.

Mr. Gorry suggested that they appoint Mr. Brovont to attend the GEPC meetings. Mr. Smith said that he would look at the funds for the sale of the Dodgertown property as a possible source for a buyout of the Plan.

5. NEW BUSINESS

None

6. OLD BUSINESS

None

7. CHAIRMAN'S MATTERS

Mr. Gorry thanked City staff for the way they handled the recent rain storm they had. He reported that Mr. Monte Falls, Public Works Director, told him that prior to hurricane season, they dredge and clean 20 miles of canal, which they had done this year and is one of the reasons the drainage worked so well given the amount of rain the City received.

Mr. Gorry said prior to this year's budget, based on the Commission's discussion, they should go before the City Council and discuss with them any issues or concerns they have prior to the Budget Hearings.

Mr. Brovont asked Ms. Lawson if she could gather all the old data they generated on the OPEB.

Ms. Lawson answered yes. She noted that staff is currently in the process of putting together the draft budget for the Budget Hearings scheduled on July 13th. She said that she has every intention, per Council's direction, to include the OPEB numbers. She noted that normally once the City Council has decided what it is they are good with and are not good with after they have their Budget Hearings they will send it to the Finance Commission for further review. She said because it is almost June that is probably the way it will occur.

Mr. Brovont said that if they could pull that data out they could circulate it to the new members on the Commission.

Mr. Polackwich asked is there somewhere they can see the investment portfolio for the pensions. He asked is this information on the City's website.

Ms. Lawson said the quarterly financial reports are not located on the City's website, but she would get the reports to the Commission members.

Ms. Lawson said in terms of timing, the opportunity to have a meeting and have the conversation before the City Council Budget Hearings probably isn't possible. She said they typically would bring it before the Commission in August.

Mr. Gorry said that he would like to express their concerns to the City Council prior to the Budget Hearings.

Ms. Lawson noted that the OPEB will be in the budget. She said that she did not know how they could squeeze in another meeting prior to the Budget Hearings, but it is at the Commissions' discretion.

Mr. Brovont said in prior years the Commission was never involved in the budget process until after it has gone to the City Council. He said there are some items in the City's expense area that they really need to look at.

Mr. Stump asked if the Commission could receive the preliminary budget information earlier.

Mr. Brovont said that he also would like to see it earlier.

Ms. Lawson explained that by the City Charter, it is the City Manager's responsibility to prepare and submit a budget to the City Council, which is what is done first. Then once the City Manager has provided his proposed budget to the City Council, the City Council will send it to the Finance Commission for their recommendations.

Mr. Stump asked when does the Finance Commission normally receive the proposed budget.

Ms. Lawson said the Budget Hearings are in July and the Finance Commission normally receives the information at the end of July or early in August.

Mr. Gorry said that a City Councilmember asked him if the Commission would recommend looking at the budget prior to the Budget Hearings. He said that he asked the City Manager and was told the same thing that Ms. Lawson just said, that it is in the City Charter that it is required to first go to the City Council.

Ms. Lawson said the City Charter states that the City Manager prepares and submits his annual budget to the City Council. She explained that once the City Council receives the proposed budget, they normally send it back to various Commissions for their recommendations.

Mr. Gorry said that he would like to express to the City Council the Commissions' concerns prior to the Budget Hearings.

8. MEMBER'S MATTERS

None

9. ADJOURNMENT

Today's meeting adjourned at 4:40 p.m.

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