

FINANCE COMMISSION MEETING
Wednesday, October 17, 2018 – 2:00 p.m.
City Hall, Council Chambers, Vero Beach, Florida

AGENDA

- 1. CALL TO ORDER**
- 2. APPROVAL OF MINUTES**
 - A) April 18, 2018**
- 3. ELECTION OF CHAIRMAN**
- 4. PUBLIC COMMENT**
- 5. FINANCE DIRECTOR’S MATTERS**
 - A) Appointment of Commission Member to Serve on the Marina Evaluation Committee**
- 6. ADJOURNMENT**

This is a Public Meeting. Should any interested party seek to appeal any decision made by the Commission with respect to any matter considered at such meeting or hearing, he will need a record of the proceedings and that, for such purpose he may need to ensure that a record of the proceedings is made, which record includes the testimony and evidence upon which the appeal is to be based. Anyone who needs a special accommodation for this meeting may contact the City’s Americans with Disabilities Act (ADA) Coordinator at 978-4920 at least 48 hours in advance of the meeting.

FINANCE COMMISSION MINUTES
Wednesday, April 18, 2018 – 2:00 p.m.
City Hall, Council Chambers, Vero Beach, Florida

PRESENT: Chairman, Ryan Bass; Vice Chairman, John Smith; Members: Kathryn Barton, Randy Old, Scott Nuttall, Alternate Member #1, Daniel Stump and Alternate Member #2, Victor DeMattia **Also Present:** City Manager, James O'Connor; Finance Director, Cynthia Lawson; and Deputy City Clerk, Sherri Philo

1. CALL TO ORDER

Today's meeting was called to order at 2:00 p.m.

2. APPROVAL OF MINUTES

A) January 17, 2018

Mr. Smith made a motion to approve the minutes of the January 17, 2018 Finance Commission meeting. Mrs. Barton seconded the motion and it passed unanimously.

Mr. Nuttall introduced himself to the Commission members.

3. PUBLIC COMMENT

None

4. FINANCE DIRECTOR'S MATTERS

A) Presentation of the Comprehensive Annual Financial Report (CAFR) for Fiscal Year Ended September 30, 2017

Ms. Cindy Lawson, Finance Director, gave an overview of the Comprehensive Annual Financial Report (CAFR) to the Commission members (on file in the City Clerk's office). She briefly went over the handout *Compare City Pension Plans - FY Ended September 30, 2017* (attached to the original minutes) with the Commission members.

B) Follow-up Discussion Regarding Uses of Residual Cash After Completion of the Sale of the Electric Utility to Florida Power and Light (FPL)

Ms. Lawson said staff is hoping to get to a point where the Finance Commission can make a recommendation to the City Council as to the use of the proceeds from the sale of the Electric Utility to Florida Power and Light (FPL). She then went over *Staff Recommendations for uses of Residual Cash after FPL Sale is Completed* with the Commission members (attached to the original minutes).

Mr. Smith referred to the first proposed action, *"Use a declining annual cash contribution to mitigate the gap between General Fund revenues and operating expenses (estimated at \$2.5 million in the first full year after the sale) across a five year period."* He asked Ms. Lawson if she views it as the role of the Commission to make recommendations on how to cover the gap.

Ms. Lawson answered yes. She said the Finance Commission endorsed this approach at their last meeting, but did not take a vote. It is staff's hope that the Commission will make a recommendation on the entire portfolio of recommendations so they can fold them into the budget. She noted that the Finance Commission weighs in on the budget and budget priorities every year.

Mr. Bass said the Commission wanted to vote on this at their last meeting, but were asked that they wait until after yesterday's City Council meeting with FPL.

Mr. Smith asked is there a system where this could be planned, such as something like the Capital Budget where they have priorities.

Ms. Lawson explained that every year the City Manager asks the City Council what their goals and priorities are for the coming year so he can craft the budget that meets their goals for that particular year.

Mr. James O'Connor, City Manager, said staff is asking for a recommendation from the Finance Commission that will help staff in the preparation of the upcoming budget. He said the plan before them today will help staff get through filling some of the gaps rather than them speculating.

Mr. Old asked can they hold this money aside and state that the money is to be used in these increments over a period of time.

Ms. Lawson answered yes and she would suggest that they do that.

Ms. Lawson felt this was a good approach that would solve a lot of problems and they would still have \$20 million of the \$58 million remaining for other possibilities.

Mr. Old asked if they could discuss his item, item 6-A), on today's agenda at this time.

The Commission members agreed.

Mr. Old felt that considering and studying the Pension Plan made sense.

Mr. Bass agreed that studying it would make sense. However, he doesn't think it hurts to allocate funds in a budgeting manner to be able to put \$1.8 million a year towards contributing towards the unfunded pension liability (referring to staff's recommendation, *Set aside funds to make the annual payments on the unfunded pension liability for the General Fund (\$1.8 million per year) for 10 years until fully funded.*) He said that doesn't mean they can't explore their options.

Ms. Lawson said staff's suggestion does not preclude that. The only way this precludes that is based on her discussion with the City's Actuaries and pension providers the amount of money they would need to buy out the pension will be far more than \$58 million. So the only way that precludes this is if they decide to do that, all staff's recommendations will go by the wayside. Staff is not proposing to take the whole \$18 million and put it into the Pension Fund at once.

They are only proposing \$1.8 million for next fiscal year so if the Commission wants to continue to consider a pension buyout there is nothing in staff's recommendation that precludes that.

Mr. Demattia said if they were to hold the \$1.8 million for a year in the General Fund, it makes 1.2%. If it goes into the Trust Fund it makes 7.5%.

Mr. Bass questioned, so you are saying if it goes into the Pension Fund.

Mr. Demattia answered yes.

Mr. Bass said it doesn't necessarily make a fixed 7.5%. He said they had the discussion at their last meeting in regards to dumping \$18 million into the current allocation. He referred to page 87 of the CAFR stating hypothetically if the City had received the money and they had done it the day after their last meeting it would have been a bad decision because they would have taken \$18 million and thrown it into 50% United States Domestic Equities and thrown 10% into the International Markets. That would not have been a great decision assuming they did it the next day. Rather than doing that what they are saying is to make a Resolution to contribute \$18 million aside and put \$1.8 a year over 10 years dollar cost averaging into the markets and smooth it out. That way they would not be making a major decision to take \$18 million and throw it into the market and hope that the market continues to be amorable market.

Ms. Lawson said they did talk about this pension buyout and this is something they have been talking about for four (4) years. She said that Mr. Glen Brovont, previous Finance Commission member, brought this up in 2014 and as a result of that conversation staff has talked with the City's pension providers, talked with their Actuaries, and looked at the number. The advice they received across those four (4) years, including at their very last Pension Committee meeting of three (3) weeks ago, is that the funded ratio of the City's Plan currently makes it cost prohibitive to consider buying out the Pension Plan. Their Actuary told them that to price this for a buyout they would most likely have to lower the Investment Return Assumption, the discount rate, from 6.5% to about 3% and based on the numbers they would have to fill the gap to sell it, which that gap would be over \$60 million. That would be every penny they receive from the sale, plus additional funding in order to put this on a funded basis that would allow them to sell it. She would hate to see them waste the opportunity to take this \$58 million and solve a multitude of problems that they are facing as a community in order to dump all of it plus more into the Pension Plan to solve a crisis that in her opinion has in a large part been averted by the freeze of the Plan, the good progress they have made towards full funding, and the fact that it doesn't have to happen today. If they want to consider this again when their funding ratio gets into the 90's, it might be a really good idea. She said if the Commission wants to have this conversation, the City has one (1) of the best Actuaries and they have Prudential who said they would be more than happy to look at this. She said that she would hate to see the City spend all this money on that and that alone.

Mr. Bass agreed that they should have a Resolution to take the \$18 million and restrict it to make annual payments at \$1.8 million a year.

Mr. Old felt that the idea of dumping \$18 million into it was incorrect. He explained that what he was thinking was that if they did do the buyout it would save the City about \$4.5 million a year. He said that he would like to see a proposal come forward that spells out what the numbers are.

Ms. Lawson said in discussing this proposal with the City's consultants, the broad based numbers are that the City would be buying themselves out of \$24 million of current liability with about \$60 million worth of funds. The fact is that the funding ratio the City is at right now makes this very expensive. She said if they want to continue to explore it and understand the numbers they can.

Mr. Old said all he is suggesting is to get a firm idea of what the numbers are. He said this is a one (1) time opportunity. He said it could turn out to be unsound and if so they wouldn't do it. He felt that getting the numbers was important.

Ms. Lawson explained with the numbers she has received it would cost them more than their entirety of their net residual cash. She said continuing to explore this, particularly as they move towards a better funded ratio that is fine in that she doesn't think there was anything in staff's recommendation that precludes that discussion.

Mr. Bass made a motion that the Commission takes staff's recommendations provided for the use of the residual cash after the FPL sale is completed and with regard to the \$18 million allocation to the Pension at a rate of \$1.8 million a year over 10 years, that they create a Resolution that restricts the \$18 million to make \$1.8 million annual payments towards the unfunded pension liability. Mr. Nuttall seconded the motion.

Mr. Smith asked Mr. Bass to restate the motion.

Mr. Bass stated that his motion is that the Commission takes staff's recommendations laid out in their model for the uses of the residual cash after the FPL sale is completed and to take the \$18 million at a funding of \$1.8 million per year over 10 years with the caveat that they have a Resolution that would restrict the \$18 million allocation to make an annual payment towards the unfunded pension liabilities at a rate of \$1.8 million per year. Mr. Nuttall seconded the motion and it passed 5-0 with Mr. Nuttall voting yes, Mr. Old yes, Mrs. Barton yes, Mr. Smith, and Mr. Bass yes.

Ms. Lawson said that she would ask the City's Actuary and consultants to put some numbers together and they would bring them before the Commission at their next meeting.

Mr. Bass asked that she also bring back before the Commission the numbers on the OPEB Trust Fund.

5. CHAIRMAN'S MATTERS

A) Discussion on Reviewing the Cost of Boards and Commissions Within the City

Mr. Smith read a quote from a book recently written by Ms. Dana Perino, former White House Press Secretary, "*I think city government is the toughest – that's where dollars and cents really matter and where people typically don't go into public service to make a living. They actually have to make a difference.*" He felt that was appropriate to have on record.

Mr. Bass said in regards to taking money and trying to smooth how they are going to perhaps go to an appropriate size with the loss of some things in regards to the Electric Utility, his thoughts are that perhaps the City Council should take a look at all the City Boards/Commissions as to which ones would be essential to their decision making process and which ones could be a club or an organization that could present to the City Council. He said that he understands there is significant staff time that goes into these Commission/Boards. He felt they should look at what the true cost is to run these Commission/Boards in regards to staff time.

Mr. Smith asked are the Boards/Commissions established by the City Charter.

Ms. Lawson said some are established by Ordinance and some by Resolution.

Mr. O'Connor noted that the Planning and Zoning Board is required by the State.

Mr. Bass said there is cost associated with it. He felt that if they were looking at ways to save costs, it would be prudent for them to look at things that may not be essential. He felt that the Commission should ask the City Council to take a look at the Board/Commissions as to which ones are essential.

Mr. Smith asked is there any way to determine the cost.

Ms. Lawson said they could look at the staff that supports them and do a loaded hourly rate.

Mr. Smith said it is very important to have a vehicle for input to the City. Also, his experience in working with Committees is that the work will expand to fill the available time.

Mr. Bass said he was just stating that they should start to think in a prudent way which Commission/Boards they find to be essential to the decision making process. He said that he is a big believer that they need community input on all things, but questioned does it have to be a mandated Committee from the City Council that requires taxpayer dollars.

Mr. Old suggested a possibility is that they have only so many meetings per year, rather than meet monthly.

Mr. Bass said the County did this years ago and they saved a lot of money.

Mr. O'Connor said the key is that they have to staff the Committees appointed by the City Council. Then there are other committees, such as the Centennial Committee, which is not appointed by the City, but they do make recommendations to the City Council.

Mr. Bass explained that he is not suggesting or pinpointing any Committee. He is just saying that the City Council should go back and look at all the Committees that have been established through the years to see which ones are essential and which ones are not essential.

6. MEMBER MATTERS

- A) Discussion of the Idea of Using some of the Proceeds from the sale of Vero Electric to Reduce Monthly Pension Payments – Requested by Mr. Randy Old**

This item was discussed earlier in today's meeting.

7. ADJOURNMENT

Today's meeting adjourned at 3:59 p.m.

/sp