

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

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

Excused Absences: Randy Old and Scott Nuttall

1. CALL TO ORDER

Mrs. Tammy K. Bursick, City Clerk, opened today's meeting at 2:00 p.m.

*Please note that this item was heard after Election of Officers.

2. APPROVAL OF MINUTES

- A) **July 7, 2017 – Regular Meeting Minutes**
- B) **August 30, 2017 – Joint Finance/Utilities Commission Minutes**

Mr. Smith made a motion to approve the minutes of the July 7, 2017 regular Finance Commission meeting and the August 30, 2018 Joint Finance/Utilities Commission meeting. Mr. Bass seconded the motion and it passed unanimously.

3. ELECTION OF OFFICERS

- A) **Chairman**

Mrs. Bursick opened the floor for nominations for Chairman of the Finance Commission.

Mrs. Barton nominated Mr. Ryan Bass for Chairman of the Finance Commission. There were no other nominations. Mr. Ryan Bass was unanimously appointed Chairman of the Finance Commission.

- B) **Vice Chairman**

Mr. Bass called for nominations for Vice Chairman of the Finance Commission.

Mr. Bass nominated Mr. John Smith for Vice Chairman of the Finance Commission. There were no other nominations. Mr. John Smith was unanimously appointed Vice Chairman of the Finance Commission.

4. PUBLIC COMMENT

None

5. FINANCE DIRECTOR'S MATTERS

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

Ms. Cindy Lawson, Finance Director, reported that as the City is nearing completion of the sale, she felt this would be a good time to start discussing what are the appropriate uses of the residual cash that the City will have available after the sale of the Electric Utility is complete. She said that she uses the phrase “residual cash” carefully because they have a combination of the cash the City already has on hand and the balances the City already maintains in the Electric Utility, that the City will still have after the sale is complete and the closing of the Utility, as well as the proceeds from the sale. Therefore, those two (2) things combined gives them a balance of residual cash that is fairly sizeable and as she and the City Manager have moved towards this moment they have considered some things they might do to mitigate the impact of the sale of the Electric Utility in places of concern, such as the General Fund expenditures and revenues, the Pension Plans, etc. She referred to the backup information provided, *Staff Recommendations for uses of Residual Cash after FPL Sale is Completed* (attached to the original minutes). She explained that what she is hoping to do today is discuss each recommendation one (1) at a time on a very broad conceptual basis. She noted that these are some suggestions from staff as to how they could apply the money to mitigate these issues or problems. She said there is a balance remaining at the end of their recommendations so there is more money on the table to do other things. She reported that her estimate of the cash balance they will have available after the sale is completed is about \$58 million. She then went over the first proposed action, cost, and advantages-benefits with the Commission members.

Mr. Bass asked what kind of instruments is the City going to be restricted to by allocated it to that glide path.

Ms. Lawson explained that they would be allocating \$7.5 million to the glide path. Assuming they took the other actions suggested the amount they would have invested would be around \$20 million dollars across the five (5) years. She explained that the City is restricted on idle cash investments to bonds, treasury bills, and federal instrumentalities, which is very different than the City’s pensions.

Mr. Smith asked what is the total budget for the City for the year.

Ms. Lawson said the City’s adopted budget for this past fiscal year was \$23.4 million in the General Fund.

Mr. Jim O’Connor, City Manager, noted that this is a five (5) year glide path. He noted that they have always said through this entire process that they would be transitioning from a city with an electric utility to a typical city without electric utility. If they had to raise taxes at the end of the five (5) years, they would still have one (1) of the lowest tax rates in the County and in the State.

At this time, Ms. Lawson went over the second proposed action, cost, and advantages-benefits with the Commission members. She said at some point she heard discussion of making a very large contribution to the City’s general employee pension plan to essentially get rid of the entire unfunded liability at once. She said that she does not agree with that approach for a couple reasons, with one (1) being that the action the City took in 2015 to freeze the plan with no further growth in liability and to begin making payments towards the frozen plan to fully funded across 12 years is working. They are two (2) years in and are on the path to have it fully funded within 10 years. What she is suggesting is they take the Electric Utility sale proceeds and put aside enough to cover only the General Fund’s portion of the liability, which is about \$1.8 million a

year for the next 10 years, and put that money aside formally and use that money to make the annual payment rather than taking the money and dumping it all in as a big principle amount.

Mr. Bass said one (1) of the things the Commission can suggest to the City Council would be in that line item in regards to the pension liabilities that they restrict the annual premium payment to only be allocated towards this.

Ms. Lawson said they could by Resolution restrict this lump of funds to be put in annually towards the pension payment.

Mr. Bass said essentially they can restrict the \$18 million, with \$1.8 million per year to only be utilized for the unfunded pension liabilities in the General Fund.

Ms. Lawson said that is correct.

Mr. DeMattia asked if there are cost of living adjustments on those pension plans.

Ms. Lawson explained that the cost of living adjustments that are in the pension plan are factored into the actuarial evaluation in terms of what the future liability is. Therefore, they are accounted for in that unfunded liability.

Mr. DeMattia asked if they paid them off now would they would avoid cost of living adjustments.

Ms. Lawson answered no. She explained that what happens is right now is the Actuary has said that the City has a future liability that includes cost of living adjustments, mortality rates, etc., of "x" number of dollars and this is the amount of money they have in the trust fund and there is a gap between the two (2). Therefore, it is not just the pension fund taking care of itself by earnings on an annual basis to keep pace with the cost of living. It is actually short the amount of money it needs to fulfill its liabilities. That is the part they are talking about. That gap between the liabilities and the current value of the assets that needs to be funded. Once they get fully funded the pension keeps pace with itself through investment earnings.

Mrs. Barton said the gap estimated right now could get smaller based on good investment returns. She asked are they limited on the type of investments they could be in.

Ms. Lawson said they will be eventually. Although as they get closer to the tail-end of it they need to become more conservative in their investments. She said they feel comfortable right now that the investment mix is appropriate for the horizon they are looking at. She said when they froze the plan they had to lower their investment return assumption to 6.5% and last year they earned 11%.

Mrs. Barton said then it is possible that the gap will be less as they get down the road than what is anticipated because of better returns, which means they don't want to pay too much into it.

Ms. Lawson said that is another argument in favor of not funding it fully when they may potentially over fund it and once you put money in you cannot get the money back. The only time you can take money back out is when the last retiree due money from that pension plan has passed away.

Mr. Bass said the target allocation in the pension fund is 50% Domestic Equity, 10% International Equity, 30% Fixed Income, 5% Short Term Money Market and 5% Real Estate, which if that is the target allocation he would support the idea of not just dumping \$18 million all at once into the fund because they would essentially be putting 50% of the \$18 million into Domestic Equities at all time highs in the market. With the other plan she has before them, they would be basically putting \$1.8 million a year to work over time and essentially creating your own dollar cost averaging strategy into this allocation.

Ms. Lawson said that is correct. She said as Mrs. Barton pointed out, they would also be taking advantage, if it happens, of the fact that their interest earnings or their advancement towards full funding was better in any given year than expected it might not be \$1.8 million. It might be less so they would avoid accidentally overfunding it by putting it all in and having things turn out better than expected.

At this time, Ms. Lawson went over the third proposed action, cost, and advantages-benefits with the Commission members. She noted that this item is also pension related. She reported that Florida Power and Light (FPL) provided in their offer that they will give the City a lump sum to cover the pension liabilities associated with the Electric Utility employees who are going to go to FPL.

Mr. Stump asked if they do this and paid the \$3 million, does that completely get the City off the hook for future pension liabilities.

Ms. Lawson answered yes, for the Electric Utility. She said if they don't do that, the portion the Electric Utility is currently paying isn't covered and would fall back on the General Fund and increase the \$1.8 million.

Mrs. Barton said it was mentioned at 85% it might be economically feasible to sell this pension out. She asked can this be done on a retiree basis, person by person.

Ms. Lawson did not know. She said that she would look into it.

At this time, Ms. Lawson went to the fourth proposed action, cost, and advantages-benefits with the Commission members. Ms. Lawson said that she considers this a great opportunity to take care of something that is a problem every year. If they were to pay off the Dodgertown loan, they would free up almost \$700,000 a year in one-cent sales tax money for paving, recreation facilities, etc., that every year seems to be the big issue during budget season where they don't have the funding to do capital programs. She said the City is going to be paying \$660,000 a year for the next eight (8) years in order to pay off this loan, or they could take this cash to pay it off and then over the next eight (8) years have almost \$700,000 in the budget every year to be considered when they discuss capital projects. The downside, although there really is not a downside, is that this is a type of loan that can't be called without prepayment penalty, which is a make whole provision. Therefore, they would not be saving money by paying it off because they have to pay all the interest they would have to pay if they paid it over eight (8) years. Essentially what they would get is budgetary freedom for the next eight (8) years.

Mr. Bass asked does the Marina property loan have a prepayment penalty.

Ms. Lawson answered yes. They both do.

Mrs. Barton asked when do they naturally mature.

Ms. Lawson said the Dodgertown loan matures in eight (8) years and the Marina loan matures in 10 years.

Mrs. Barton asked are the interest rates fixed.

Ms. Lawson answered yes. She said the Dodgertown loan is at 3.98% and the Marina loan is at 4.01%.

Mr. DeMattia asked what are the restrictions on investing those funds if they were not to pay the loans down.

Ms. Lawson said it would be idle cash. It would be the restrictions they discussed earlier, which are bonds, treasury bills, and federal instrumentalities.

Mrs. Barton said this seems farfetched because on an individual level you always want to pay off your debt first. But, these interest rates are not bad. She asked if they got into a lot of capital improvements, would they have to borrow money.

Ms. Lawson said that she wouldn't suggest that they do that.

Mrs. Barton said they kept the loans they have they wouldn't have to go out and get new loans at maybe not favorable interest rates.

Ms. Lawson said it doesn't really matter one way or the other from the amount you are going to pay out over time. Without borrowing money it immediately puts another \$660,000 dollars on the table every budget season to do the kinds of capital projects that they are upside down on, such as road paving, recreation facilities, etc. They would have more money without having to borrow money.

Mr. Smith said they still would have \$20 million left.

Ms. Lawson said they could do all these recommendation and still have almost \$21 million left for other things.

Mr. Bass asked in the event of the sale of the Dodgertown property was to occur ...

Ms. Lawson said they would have cash. She said if the City paid off the loan and for some reason decided to sell it the City would receive the cash from the sale.

Mr. Stump said it might make it easier to sell if the loan was paid off.

Mr. O'Connor said they would have an appraised value.

Mr. Stump asked are these the only loans for these two (2) properties.

Ms. Lawson answered yes.

At this time, Ms. Lawson went over the fifth proposed action, cost, and advantages-benefits with the Commission members. She said if the Marina did not have the \$338,000 a year debt service payment they would be in pretty good shape and have the funds they needed to make some much

needed capital repairs. Minus this debt the Marina would be very healthy and have its own ability to invest in capital improvements and would have an increasing net asset position and right now it doesn't. It is a big debt service burden for a small Marina. She is suggesting that they pay this loan off and put the Marina back on good footing.

Ms. Lawson felt the overall message of their recommendations is that rather than do one (1) big thing with the money that it would be better applied in a measured way to many of the things that have been a concern. This is a big opportunity to take care of some of the issues that are created by the sale, but also take care of some of the issues that have been with them for a while in terms of lack of funding for capital and the pensions and do it in a measured way and still have enough money left over.

Mr. O'Connor explained that what he and Ms. Lawson were trying to do was to establish a plan.

Mr. Smith said the reason why he really likes what staff put together was that they were taking care of current problems and leaving almost half of the funds for the future of the City.

Mr. Bass said they are basically looking at locking \$38 million up with \$20 million in flexibility so with the provision that there has to be a Resolution from the City Council that states they want to restrict the annual premium payment to only be utilized for the Pension Fund because everything else would be locked up in its own way.

Ms. Lawson would ask for the Commission's endorsement of staff's recommended approach as a whole and a further recommendation that where possible they formalize it through a Resolution.

Mr. Smith asked how much of a change would be necessary to make this into a recommendation by the Finance Commission. He asked can they do it as is or should it be restructured and rewritten.

Ms. Lawson felt if the Commission made the motion and the vote that they concur with staff's recommended approach and that they would like to see it be done in the form of a Resolution wherever possible or practical then staff would take that as direction to create those Resolutions and would bring them back before the Commission prior to bringing them to the City Council.

At this time, the Chairman opened the meeting for public comment.

Mrs. Laura Moss, Councilwoman, congratulated Mr. Bass and Mr. Smith on being Elected as Chairman and Vice Chairman of the Finance Commission and thanked the Commission for their service. She asked that the Commission please not finalize anything until the Florida Municipal Power Agency (FMPA) has finalized everything and that will be the third Thursday in February, which is February 18, 2018. It is a simple request that they wait until FMPA has finalized everything. It's like "don't count your chickens before they hatch." There is just something about it that it doesn't sit well with her. She asked that they let FMPA finish their part of it and then the City Council will be happy to hear the Commission's recommendations. She thanked the Commission members for their work on this and staff for their work on this. She said it is all very much appreciated.

Ms. Lawson noted that there is no rush for their recommendation.

Mr. Bob Auwaerter complimented staff stating that he felt this was a great approach in terms of prioritizing things. He agreed with the idea to try to lock up some of the funds. One thing that

he didn't see in their recommendations to potentially be considered was the Other Post Employment Benefits (OPEB). He thought that he saw in the City CAFR a few years ago that the OPEB liability had 0% funding. He asked if they thought about taking some of the \$20.8 million remaining to start paying down the OPEB.

Ms. Lawson reported that the City created an OPEB Trust last year through annual budgetary contributions.

Mr. Bass asked if staff is asking the Commission to make a recommendation for them to prepare a Resolution to be brought back before them.

Ms. Lawson said ultimately they are asking for the Commission's endorsement of staff's recommended approach and a request where possible that they turn these into formal restrictions to go before the City Council. She noted that there is no rush.

Mr. O'Connor said what they are asking the Commission is if there is any major opposition to this or any major change and if not then possibly next month they could have another Finance Commission meeting to again discuss this.

Mr. Bass said the only suggestion that he would make is on the second proposed action, would be to create a Resolution to restrict the annual premium payment.

Ms. Lawson felt that was a great idea. She thought that was the only one they could formalize their intent by Resolution.

Mr. Smith thanked staff for the work they have done. He said the Commission approves in general what has been done and this should be held in abeyance until the time the sale is complete.

Mr. Bass thanked both Ms. Lawson and Mr. O'Connor for putting this together. He felt that they were good suggestions. He said the next step is staff would fine tune this and prepare the Resolution and after the February 18, 2018 FMPA meeting. The Finance Commission would hold another meeting after February 18, 2018.

6. ADJOURNMENT

Today's meeting adjourned at 3:15 p.m.

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