CITY COMMISSION JOINT WORKSHOP 12:10 P.M. June 29, 2012

Present: Mayor John P. "Jack" Seiler
Commissioners Bruce G. Roberts, Charlotte E. Rodstrom, Bobby B. DuBose and Romney Rogers

Also Present:

City Manager	Lee R. Feldman
City Auditor	John Herbst
City Clerk	Jonda K. Joseph
City Attorney	Harry A. Stewart

Also Present: General Employees Retirement System Board of Trustees, Members

John "Le" Bucci, Chair
Mark Darmanin, Vice Chair
Greg Slagle
Julie K. Cameron
Dave Desmond, Pension Administrator

Absent: Darlene Pfeiffer
Sean F. Jones
Paul Tanner

Police And Firefighters Retirement System Board of Trustees, Members

Michael Dew, Chair
Ken Rudominer, Vice Chair
Scott Bayne
Jeffrey Cameron
Dennis Hole
Steve Cypen, Cypen & Cypen, Board Attorney
Lynn Wenguer, Pension Administrator

Absent: Rich Fortunato
Jim Naugle

1. Mayor Seiler called the meeting to order. Introductions were made.

2. Overview of Pension Plans

A. General Employees Retirement System – Chairman Bucci

Chairman Bucci read a prepared statement that is attached to these minutes. Chairman Bucci confirmed for Mayor Seiler that he did not consult with his fellow trustees concerning this prepared statement. Chairman Bucci asked the members to comment on anything that they may disagree with in his statement.

Ms. Pfeiffer indicated that the board has been without a seventh member since January. Mayor Seiler advised that an appointment will be made in July. There was someone that he had contemplated but there was some back and forth with respect to whether the individual's employer would agree to such a commitment. He asked the board to submit names of people they would like to be considered.

In response to Mayor Seiler, Chairman Bucci presumed that his recommendation about allowing appointments of retired employees would be for the employee membership category. They would stand an election.

B. Police and Fire Pension Plan – Chairman Dew

Chairman Dew read a prepared statement that is attached to these minutes. He reviewed slides on the plan. A copy of the slides is attached to these minutes. He introduced Joe Bogdahn, president of The Bogdahn Group and a member of the Florida Public Pension Trustee Association, to discuss the topic of asset allocation, risk and reward. Mr. Bogdahn pointed out that the S & P 500 has averaged a return of over twenty percent over the past three years, even though the media has painted doom and gloom. He highlighted the country's economic history from the credit crisis in 1907. He believed the country is on the upturn. He stressed the importance of buying when the price is low. Lowering the earnings assumption percentage will increase the City's funding costs today, which is a time when cities are not flush with cash. This is not the time to do this; it is the most expensive time. The goal in pension plan portfolios is less volatility. There are pension plans in other parts of the country that are in trouble because contributions have not been made for years. He emphasized that history repeats itself. A copy of slides used during Mr. Bogdahn's presentation is attached to these minutes. He contended that the portfolios are being managed as they are supposed to be. Although it is expensive now, it will get less costly.

Regarding the survivor – remarriage provision, Chairman Dew indicated for any member who retired prior to 2000, survivors are not allowed to re-marry (and continue to receive pension benefits). This has the potential to impact 115 surviving spouses. This is a group whose size will shrink. There is absolutely no cost to change this provision. The City Auditor contended there must be an associated cost because individuals could choose to re-marry and forfeit the pension. Chairman Dew confirmed that the actuary has factored-in an assumption that no one re-marries. The City Auditor pointed out the City foregoes the opportunity for savings, which is in effect still a cost.

Chairman Dew addressed the length of trustee term and indicated the request is for a four-year term. This will facilitate education and securing trustees that are genuinely committed to the position.

Vice Mayor Rodstrom noted that the City's contribution has increased by over $2 million from $30 million in 2011 to $32.2 million in 2012. Chairman Dew indicated that the mortality table changed and the return on investment assumption was reduced from 7.75 to 7.5 percent for $1.3 million. The remainder is a result of investment return. He confirmed that lowering the return assumption percentage means the City has to make a larger contribution. The City Manager indicated that the percentage is a policy decision of the Board of Trustees. Vice Mayor Rodstrom noted that, if the policies continue on this trend, the Commission must be sure to budget funds accordingly as it ultimately makes the policy decision for budgeting pension contributions. Chairman Dew indicated that this matter was discussed with the Finance Director and Assistant City Manager and well debated. The City Auditor advised that, if the actuarial assumptions are reduced, it does not cost more. Rather the City must fund more upfront. The cost over the long-term has to do with actual returns achieved. Vice Mayor Rodstrom was concerned with the short-term funding aspect.

Chairman Dew confirmed for Mayor Seiler the history of the survivor – remarriage provision that was enacted by the legislature in 1999 requiring optional retirement benefits and subsequently adopted by the City.

A general discussion ensued about cycle length and long-term view. Chairman Dew commented on the slow methodical changes being made now to their conservative portfolio to be ready realize more return. More money management firms have been hired.

Regarding the survivor – remarriage provision change request, Mayor Seiler requested the City Auditor's opinion as to cost. The City Auditor indicated that the cost may be diminimus with it being factored in their funding calculation, but there must be some. The City would be foregoing an experience gain that would reduce future contributions.

Chairman Dew confirmed for Mayor Seiler that the statute provides for trustee terms to be either two or four years. Mayor Seiler agreed with four years, recognizing the certification period of time. He asked that this change be presented to the Commission for their consideration.

The City Manager advised that an ordinance relating to mortality table adjustments will also be presented to the Commission for their consideration. Chairman Dew noted that it needs to be updated.

Mayor Seiler noted that the actuary's letter on the survivor - remarriage topic is from 2002. Commissioner Roberts agreed with the requested change philosophically, but needed to be able to review the associated numbers. Commissioner Rogers mentioned that there are actual and actuarial costs. Vice Mayor Rodstrom agreed. Chairman Dew agreed to meet with the City Auditor.

Vice Mayor Rodstrom pointed out that, as the Board of Trustees moves to a riskier portfolio, the City's costs will increase. Chairman Dew indicated that their goal is to have higher gains and reduce the City's cost. Vice Mayor Rodstrom thought this goal is admirable. Chairman Dew noted that the Board wants to be in a position to reap the benefits of the market when it starts to change. He confirmed for Vice Mayor Rodstrom that the Board makes comparisons with other asset allocation managers. Vice Mayor Rodstrom asked about the plan of action if the market does not turn around as quickly as anticipated while riskier investments are being made. Chairman Dew advised that the Board will stay within the policy. The plan is to be in a neutral position and be prepared to actively manage funds when they are available, but not lose money. Vice Mayor Rodstrom did not question that this is the Board's responsibility and decision. However, she must view this from a policy setter's standpoint in terms of whether the budget is adequately funded as she has a fiduciary responsibility to ensure there are funds for retiring employees. Commissioner DuBose asked, over the ten-year period of time, what is the indicator that would cause the Board to come to the conclusion that what they anticipated would happen in the market as presented today was not happening. Chairman Dew felt this is a question for their performance manager. Mr. Bogdahn elaborated upon how investment managers make choices on specific investments and offset risk, counter-balancing. The City Auditor advised that the last three to four years have upset the correlation of asset classes. The correlations of the past have changed substantially. For example, real estate went down with equities which is typically not the case. The question is whether the last three or four years is being considered an anomaly. Mr. Bogdahn contended that it is not so much that cycles are not behaving as they have, but rather that time frames are compressed because of all of the available information. He agreed with Vice Mayor Rodstrom that this may be considered the new normal.

Vice Mayor Rodstrom asked what percentage of the Board's portfolio was in the stock market before the 2008 nosedive. Chairman Dew explained that the Board started moving toward a more conservative approach in 2008. He noted that it takes about six months in order for the Board of Trustees to take some action and then see the results. Vice Mayor Rodstrom pointed out that the Board hires professionals to forecast the market, and asked who was the first to suggest taking action. Chairman Dew indicated that the asset consultant was replaced in January of 2011 after some concerns. In response to Commissioner Roberts, Chairman Dew elaborated upon the transition when the asset consultant was changed along with several money managers. Mayor Seiler was interested in knowing the results since the plan has become closed. Chairman Bucci indicated that they follow the investment policy through up and down markets. He cautioned against trying to time the market. They have a fairly conservative portfolio. Their money managers are evaluated on a regular basis. Their investment manager reports to the Board every three months. The investment manager tracks the batting average Out of the last twenty-one quarters observed, the plan beat the index seventeen times. The money managers are evaluated every month. They did not panic in 2008. The market came back with a roar. Commissioner Rogers asked if their investment policy was changed after the plan became closed. Chairman Bucci advised yes. He, along with Member Darlene Pfeiffer, explained that more asset classes were added that are more on the fixed side. The City Auditor referred to a Wall Street Journal article speaking of an assumed rate of return of 8 percent over the last ten years in a 60/40 portfolio. Some of the return was generated from bonds and some from stocks. He agreed that there is probably a zero return on bonds in the next decade which implies one needs to achieve fourteen percent in the equity portion in order to achieve an average rate of 8 percent. Mr. Bogdahn felt that it should work based on about 15 percent in stocks. Also, that is when the fixed income allocation should be reduced because the 60/40 premise is based on that historic average. The City Auditor noted that then volatility is increased, that is, depending on equities for 8 percent. Equities are a much more volatile asset class. Mr. Bogdahn suggested re-balancing and adding commercial real estate which should generate about 3 percent. It will minimize volatility of the stocks. The portfolio will have incrementally more volatility but not as much as it would if stocks were simply added. The City Auditor pointed out that bonds have historically generated 6 percent, whereas real estate is expected to generate 3 percent. Mr. Bogdahn clarified that in addition to appreciation of 3 percent, it is income-producing at about 6 percent. Overall, the target has been reduced to 8 percent. Member Rudominer commented on the care, education and commitment of each trustee and input sought before investment decisions are made. Mr. Bogdahn suggested an annual workshop with the Commission to review investments made during the year.

C. Defined Contribution Plans

Concerning the contribution rate and in response to Mayor Seiler, the City Manager indicated that a menu of recommendations will be ready for the Commission's consideration. He noted that this system has been in place since 2003. Vice Mayor Rodstrom pointed out that, if this system continues, it will become the City's responsibility this year. She and Mayor Seiler requested a recommendation from the City Manager and City Auditor be presented as soon as possible. Vice Mayor Rodstrom suggested there be options set out in the recommendation document.

3. Cost Saving Strategies

The City Manager noted there have been discussions about pension obligation bonds in the current year budget. Staff has been waiting on preparation of actuarial reports that are now completed. He is now ready to make a presentation to the Commission on this strategy. There is a gap in the budget and this is one of the methods proposed to remedy it. Vice Mayor Rodstrom expressed opposition. The City Manager indicated that, if the market out-performs the actuarial rate of return, it would be a homerun. The question is when is it a bad decision in terms of risk; viewing it as borrowing at roughly 3.7 percent interest. As long as the return over the term of twenty years is in excess of 3.7 percent, the City would be in the black. The pension boards are estimating returns in the 7 percent range, which is in excess of 3.7 percent. As such, he believes it is a good investment. Vice Mayor Rodstrom pointed out that the 3.7 percent is an actual fixed amount because it is a loan, whereas the 7 percent reference is a fictitious, actuarial number. In response to her question, the City Manager advised that next year's budget includes $5.6 million from pension obligation bonds. In response to Mayor Seiler, the City Auditor advised that this was examined last year and he was cautiously supportive of it. The City Manager's comment is accurate, that is, if the rate of interest being paid on the bonds and all interest costs are achieved, it is neutral. This is why timing is important. This is the best estimate as to what is going to happen in the next twenty years. Vice Mayor Rodstrom did not think pension obligation bonds would be considered at all if there was no budget shortfall. The City Manager advised that, regardless of whether there was a shortfall, he would still be making this recommendation because it would free up other resources.

In response to Commissioner DuBose, the City Auditor elaborated upon the potential risk. He explained that there are two primary risks. One is that the fixed rate on the bonds is not achieved. The unfunded liability used to be a footnote disclosure in the financial statement. When bonds are issued, they become a real liability on the balance sheet. The argument has been not to book the liability because it impacts the City's financial position. GASB (Governmental Accounting Standards Board) has just ratified their proposal requiring it to be shown. Lastly, when the City is at a fully funded level, it will be difficult for the Commission to refuse cost of living adjustment (COLA) requests which would add to the unfunded liability; it is a moral hazard so to speak. Commissioner Rogers believed that the ordinance has a profit qualifier associated with granting a COLA; however, the City Auditor indicated it is for any given year and is not cumulative. Commissioner Roberts indicated it is not really a COLA, but rather a one-time payment based on market return. The City Auditor noted that, in 2000, when the plans were at a 105 percent level, there were benefit enhancements made.

Mayor Seiler felt now is the best window for pension obligation bonds. But, he is concerned about to what extent. It is an increased debt burden. It could impact future financing flexibility and credit ratings for the City. The City Auditor advised that GASB is now prohibiting use of the assumed rate of return on the pension plan to discount back the actuarial unfunded liability. It will be the rate at which the City is borrowing. In other words, the unfunded liability amount will be larger because the interest rate that will be used will be less. If the unfunded liability is paid off with the pension obligation bonds, there is that liability on the books; however the unfunded liability no longer has to be discounted back at the lower percentage. So, in effect, there is a smaller number on the balance sheet than would be the case without the bonds. It actually improves the City's financial position. Ed Stull, of First Southwest, City's Financial Advisor, agreed with the City Auditor. Once the GASB standards are fully implemented in 2015, it will be a consideration. Mayor Seiler asked about the capacity aspect. Mr. Stull did not think the City's financial rating will change. The City Manager indicated that the rating agencies are already looking at the fact that the City is paying interest on the unfunded liability. If anything, the City is creating more capacity by paying it at a lower rate. Commissioner Rogers asked how the decision was reached on the amount of unfunded liability to pay off with bonds. The City Manager indicated he decided upon the 75 percent level. With the GASB ruling, the City may wish to look at a higher amount which would increase the City's savings and make the unfunded liability number smaller on the City's books, however, there is the moral hazard or risk to consider. He would like to explore adding covenants to these bonds prohibiting the addition of lots of benefits while the bonds are outstanding.

In response to Vice Mayor Rodstrom, Mr. Stull indicated that bank loans are part of the comprehensive annual financial report (CAFR), so they are a consideration with respect to the rating agencies. The City Manager commented that it was included in the City's presentation to the rating agencies. He went on to comment that the $30 million could be borrowed on a longer term basis and still achieve a savings, although not as much. It would then not be necessary to go through this every year. When interest rates climb again, the City will already be caught up.

Commissioners Roberts and Rogers were comfortable with the concept of pension obligation bonds. Mayor Seiler wanted to see a mix; a balance on the amount and the timing needs to be struck. The City Manager indicated that the amortization for the existing unfunded liability would be matched month for month. In response to Commissioner Rogers, Mr. Stull indicated the period of time for the police and fire is to 2030 and for the general employees to 2041, based on amortization of the unfunded liability. As a closed plan, the City Auditor questioned whether there should be consideration toward making the period of time shorter. Bob Oelke, member, Audit Advisory Board, indicated since the GERS plan was closed, the actuaries have requested that the amortization schedule be shifted downward. Under this amortization schedule, the last employee in the plan will have thirty years of service and be seventy years old by the time the bonds are paid off. He urged that this point be discussed with the Board of Trustees.

Vice Mayor Rodstrom indicated that she is not comfortable with pension obligation bonds. Commissioner DuBose felt more information is needed as there are many variables. He wanted to hear from the City Attorney. Mayor Seiler wanted feedback from both boards on the timing and the overall concept. He requested that this be on their July agendas. He also wanted an opinion from the City Attorney on the suggested policies. He asked for the City Auditor to be on top of this matter. As to the contribution rate for the Defined Contribution Plan, this item should come back to the Commission. He felt there is agreement that it is too high.

John Stuber indicated that he retired in 1987. He was concerned about the survivor – remarriage provision. Mayor Seiler indicated that more information is needed on this item. He emphasized that he would not favor anything that will cost the taxpayers anything. When this item is brought back to the Commission, he will welcome comments.

There being no other matters to come before the City Commission, the meeting was adjourned at 2:04 p.m.