



TO: Honorable Mayor & Members
Fort Lauderdale City Commission

FROM: Lee Feldman, City Manager

DATE: September 5, 2012

TITLE: A resolution authorizing the issuance of Taxable Special Obligation Bonds, Series 2012 (Pension Funding Project) - \$340,000,000

Recommendation

It is recommended that the City Commission approve the resolution authorizing the issuance of Taxable Special Obligation Bonds, Series 2012 (Pension Funding Project), by negotiated sale, in an aggregate principal amount not exceeding three hundred forty million (\$340,000,000).

The bonds shall be secured by and payable from certain designated revenues pledged that are not derived from ad valorem taxes and certain legally available non-ad valorem revenues budgeted and appropriated by the City.

The bonds will fund a portion of the unfunded actuarial accrued liabilities of the City's General Employees Retirement System and Police and Firefighters' Retirement System, including repayment to the City of a portion of its contribution to the Police and Firefighters' Retirement System in FY 2012.

The City Manager is delegated the authority to determine the terms of the series 2012 bonds within prescribed parameters set forth in the Resolution.

The resolution approves as to form and authorizes the execution and delivery of a paying agent and bond registrar agreement; a continuing disclosure agreement and a bond purchase contract; authorizes distribution of a preliminary official statement; execution and distribution of a final official statement, with respect to the Series 2012 bonds.

Background

Pension Obligation Bonds (POB's) can be used as part of an overall strategy to manage pension costs and provide economic benefit to the City. Benefits include reducing the City's outstanding unfunded actuarial accrued liability (UAAL); providing budgetary savings for the FY 2013 Budget and beyond; reducing the interest rate paid on the UAAL from the police and fire pension plan of 7.50% and the general employee pension plan of 7.75% to less than 4.50%; partial repayment to the City of its contribution to the Police

and Firefighters Retirement System in Fiscal Year 2012 (through a short term note) and prefunding a portion of the related UAAL for Fiscal Year 2013.

The identified risks of using POB's (as referenced previously) are:

- Pension plans do not produce investment returns greater than the interest rate paid on the bonds
- The increased debt burden may have a minimal impact on the City's future financing flexibility however, this may be less of a consideration due to the newly adopted Governmental Accounting Standard Board (GASB) 68 requiring governments to disclose the net pension liability figure on their balance sheets taking effect in 2015
- A fully funded pension plan could put pressure to provide additional benefits to employees.

To address the latter risk, language is included in Article VI, Section 610, Covenant Concerning Increase in or Addition to Pension Plan Benefits. This covenant places a restriction on the ability of the Commission to increase or add new pension benefits. Specifically, the section reads as follows:

“The City shall not increase any benefit provided or provide a new benefit to members of either the GERS or the Police/Fire Pension Plan which is in addition to the benefits provided to such members as of October 1, 2012, unless (a) (i) the present value (as determined by the respective independent actuaries of the Pension Plans) of the cost of such increase in benefits or new benefit is fully funded at the time that such increase in benefits or new benefit is approved and (ii) such increase in benefits or new benefit is approved by vote of a majority of the full City Commission plus one or (b) such increase in benefits or new benefit is approved by the unanimous vote of the full City Commission.”

The City of Fort Lauderdale currently has GERS and Police/Fire pension funds with a total combined unfunded actuarial accrued liability (UAAL) in the amount of \$399.8 million as of October 1, 2011 and January 1, 2012 respectively.

	Actuarial UAAL	Actuarial Funded Ratio	Market Value UAAL	Market Value Funded Ratio
GERS Pension (as of 10/01/11)	\$181.0 mil	66.3%	\$231.4 mil	56.9%
Police/Fire Pension (as of 01/01/12)	\$218.8 mil	69.8%	\$271.3 mil	62.5%
Total	\$399.8 mil	68.3%	\$502.7 mil	60.1%

The annual required contributions (ARC) for FY 2013, absent the issuance of pension obligation bonds, will be \$28,033,782 and \$31,980,704 for the General Employees Retirement System (GERS) and the Police and Fire Retirement System plans, respectively.

The City has determined to discharge 75% of the UAAL's of the respective pension plans as of the most recent valuation dates, and reimbursing a portion of the repayment of the Series 2011C Note (issued to prefund a portion of the Police/Fire FY 2013 ARC).

- GERS UAAL Discharge: \$135.75 million discharge on 10/01/2011
- Police/Fire UAAL Discharge: \$164.1 million discharge on 01/01/2012
- City Reimbursement: \$16.1 million

After the issuance of the Series 2012 Bonds, the UAAL's of the respective pension plans will be reduced to the following estimated levels:

	Actuarial UAAL	Actuarial Funded Ratio	Market Value UAAL	Market Value Funded Ratio
GERS Pension (as of 10/1/11)	\$45.3 mil	91.6%	\$95.6 mil	82.2%
Police & Fire Pension (as of 1/1/12)	\$54.7 mil	92.4%	\$107.2 mil	85.2%
Total	\$100.0 mil	92.1%	\$202.8 mil	83.9%

Resource Impact

There is a positive fiscal impact to the City of potential budgetary savings estimated in excess of \$5.5 million for FY 2013.

Attachment(s)

All attachments are substantially in final form.

- Exhibit 1 Resolution
- Exhibit 2 Bond Purchase Contract
- Exhibit 3 Paying Agent and Bond Registrar Agreement
- Exhibit 4 Preliminary Official Statement (POS)
- Exhibit 5 Continuing Disclosure Commitment
- Exhibit 6 Ratings Presentation Series, 2012 Obligation Bond

Prepared By: Lynda C. Flynn, Treasurer

Department Director: Douglas R. Wood, Finance