NOTICE OF MEETING

Finance and Budget Review Committee
Thursday, April 30, 2009 at 2:00 PM

Commission Chambers at City Hall
155 Corey Avenue
St. Pete Beach, Florida

FINANCE & BUDGET REVIEW COMMITTEE AGENDA

Call to Order

Roll Call

1. Approval of Minutes:
   a. June 14, 2007
   b. July 16, 2007
   c. July 27, 2007
   d. July 30, 2007
   e. July 31, 2007
   f. June 11, 2008
   g. July 9, 2008
   h. July 10, 2008
   i. September 16, 2008
2. Presentation by Williams Actuarial International regarding pension plans
3. Quarterly Report for period ending March 31, 2009
4. Schedule next meeting
5. Other Business

Motion to adjourn

The public is cordially invited to attend.

In accordance with the Americans with Disabilities Act and F.S. 286.26, persons with disabilities needing special accommodation to participate in this proceeding should contact Ed Pickhardt at (727) 363-9243 no later than four (4) days prior to the proceeding for assistance.

If a person decides to appeal any decision made at this hearing, they will need a record of the proceedings and, for such purpose, may need to ensure that a verbatim record of the proceedings is made, which record includes the testimony and evidence upon which the appeal is to be based.

Elaine Trehy

Elaine Trehy, Finance Director

FINANCE AND BUDGET REVIEW COMMITTEE
MINUTES

Thursday, April 30, 2009
2:00 PM

Call to Order

Roll Call

Present: Joanne Melodayo, John Samorajzyk, Peter Uebelhoer, Thomas Gadacz, John Philips, Sr.

Also Present:

Elaine Trehy – Finance Director
Pamala Prell – Deputy City Clerk
Mike Bonfield – City Manager

APPROVAL OF MINUTES

The Minutes of June 14, 2007; July 16, 2007; July 27, 2007; July 30, 2007; July 31, 2007; June 11, 2008; July 9, 2008; July 10, 2008; and September 16, 2008 were unanimously approved.

PRESENTATION BY WILLIAMS ACTUARIAL INTERNATIONAL REGARDING PENSION PLANS

Ms. Trehy introduced Mr. Williams. A copy of Mr. Williams' report was given to those in attendance.

A discussion was held regarding reducing a benefit multiplier from 3.40% to 3% from past and the future. The multiplier cannot be reduced, except prospectusly for future service. Current employees have accrued benefits and this cannot be taken away from them. In going forward, the percent can be reduced to 0% to freeze the plan(s). The change can be done by Pension Ordinance and is subject to the Union bargaining process.

The provisions of the plans, in general, meet the minimums of the Fire/Police, Chapter 175 & 185 of the Florida Statutes and are well in excess of the minimum benefits. Many benefits are better than the Florida Retirement System provisions.

A discussion was held on how incremental benefit percentage reductions can be submitted; the example in the report showed a 1/10 % reduction, with a cost savings to the City of approximately $50K.

The definition of "salary" is being looked at by the City. The Plans vary. In the General Plan, the base salary is what is considered salary for the calculation of the high five years; in Police, it is everything; in Fire, it's everything except the final pay out they get for the accumulated sick and vacation time. When they have the final payout of $22 or 25K for all unused sick and vacation time, it really bounces up one of the five years.

What is included as far as salary goes? Ms. Trehy explained what "salary" means in the three Plans. To make a change would require an amendment to the Ordinances and is subject to negotiations.

Earnings Assumption was discussed; this is established by the Pension Boards. When looking at the unfunded past liability, in the year 2000 the City had an accumulated unfunded pension liability of $4,800,000; by October 2007, it was $10M. The principal reason being, the earnings never got close to the 8.5%. The committee needs to recommend to the Commission that they face up to the fact that it is going to cost more in annual contributions. We have to stop deferring the liability to the future.

Mr. Williams commented that the 8.5% is probably in the upward bound of the range of reasonable assumptions. There might be a lower bound somewhere about 5 or 6 and an upward bound of 8.5 to 9.

When you set an assumption, you don't look at the past, although you obviously do. Mostly, you can give more weight to what you think is going to happen in the future. Mr. Williams mentioned that he is not here to defend the 8.5%, and if you use a more reasonable assumption, maybe 7% to lower the rate, your liabilities in the Plan are going to swell as it moves in the opposite direction like a Bond; interest rates go down, the price of the Bond goes up, and the assets remain the same. The unfunded is going to go from around $10M to $15 or $18M and you will be forced to put more money into the Plan. The minimums that are calculated under the lower assumptions are going to be great. The City can voluntarily fund more than the minimum contribution and get the unfunded liability down.

The actuarial losses being generated when the assumptions are not met are amortized over 30 years. In the good years when you have gains, they are also amortized over 30 years where you get payback. Any additional amounts over the minimum are going to help the situation. The City does not have the luxury of postponing contributing plans to wait out the market.

A question was asked, "What is considered a reasonable rate?" In Mr. Williams' experience, he has seen a lot of 7.5% returns on City Plans. In the Private Sector, the Federal Government mandates the interest rates that are used. They are now tiered rates at 5.5% for the first five years, 6.5% for the next 15 years, but not over 7%. These are based on average Treasuries. The range of reasonable assumptions would probably be a floor of 5% and maybe as high as 9%, the lower the rate, the higher the costs.

To keep costs down, several things need to be done with each of the Plans. Attack them on several fronts: the multiplier, the investment return and the retirement age. You can only change that prospectusly.

If you froze all plans and started a Defined Contribution Plan you would still have to fund the Defined Benefit Plan.

Back in the 80's when interest rates were at 13% and 18% you had great investment returns, and the actuaries were assuming a 9% return. Annuities could be bought at 8% or 9%. A lot of companies found the pension plans overfunded and started terminating plans. When the pendulum swung the other way, and became underfunded, nobody could terminate the plans. The Plans are hiring incentives for people when looking for employment.

Mr. Bonfield spoke. For the General Plan we could look at new hires going into a Defined Contribution Plan. Looking at people who are recently hired to get out and go into the DC Plan. Possibly, a lot of the new hires would prefer not to put in their 7.5% because they do not plan on being here 25 or 30 years. There may be people who elect to do that, that is along term solution. If you kept the General Employees Plan, then you could look at lowering benefits, increasing contributions and retirement ages.

The City receives State monies for the Police/Fire Pensions and we are governed by their requirements. In terms of freezing the Plan, there are a lot more ramifications involved. Years of service and retirement ages are all mandated by the State statute and we pretty much follow it. We could look at definition of salaries and lowering benefits.

A discussion was held on how expensive Colas' are and if we could eliminate or reduce them. This would have to be negotiated.

Ms. Trehy read items the committee wants to recommend to the Commission:

1. Freeze the General Employees Plan for new hires
2. Allow the most recent hires to opt out of the General Pension Plan
3. Look at the multiplier for all plans
4. Increase employee contributions

Ms. Trehy will look at the definition of salary and lowering the multiplier for the Police/Fire Plans over a period of 5 years.

Mr. Williams will prepare a list of recommendations for the committee to submit to the City Commission.

The committee expressed their gratitude to Mr. Williams for his help and to Mr. Bonfield for having an actuary to look at the situation.

QUARTERLY REPORT FOR PERIOD ENDING MARCH 31, 2009

Our revenues are exactly what we collected the previous year at 59%. Ad valorem taxes come in predominately in the first months of the year and are identical, percentage wise, as to what we had collected the previous year.

Areas of real concern in revenues are interests, fines and forfeitures, which is down quite a bit. We were initially concerned about franchising utility taxes; in the first quarter it was low but has evened out. We should be okay on revenues with the adjustments that were made.

The statement showed a $100K decrease in the budget which was approved by the City Commission.

Expenditures are about 5% higher than the previous year. A lot is due to less wiggle room this year than the previous year.

The public thinks that when costs are cut the City has that money to spend, but this is not correct.

The budget for anticipated legal fees will need to be increased about $75 to $100K. To date, the $200K extra legal fees that had been budgeted have been spent. The $100K will have to come up in the current budget.

Mr. Bonfield spoke. We have about 1/2 dozen cases relating to redevelopment issues. The City has agreed to take the lead on the cases related to the Comprehensive Plan challenge.

What makes this more difficult to discuss is that it was all approved by voters. How to start negotiating to change what voters did is very complicated. Now, we are trying to see what the first ruling from the Administrative Law Judge in the Comprehensive Plan's challenge is. Based on that, we'll see how the other side reacts. Our attorneys have estimated $75K; our estimate is $75-$100K if everything goes forward.

A discussion was held on how the City purchases fuel for vehicular use. The City has a contract with Exxon Mobile which has a fleet program for governments. They provide the City a discount, plus they deduct all the taxes which we are not required to pay. We buy wands which are good at any Mobile station. The City got out of fuel storage because of costs. We have a storage tank at the Fire Station which does some diesel, and one at Merry Pier; both will eventually be taken out of service. The fire trucks will obtain fuel at the South Pasadena fire station or we will get a small above-ground storage facility and do limited fueling.

Mr. Bonfield gave an update as to where we are in putting together next year's budget. We are currently around l/2 million dollars short in expenses vs. revenues. The goal is June 1 to have the budget available.

The lobbyists have submitted, on our behalf, construction funding for Blind Pass Road, Pass-a-GrilleWay, Communication Equipment for Police dispatch and for the subaqueous sewer line. The money received for the Blind Pass Road project was about $175k.

Meeting adjourned at 4:00 p.m.

If a person decided to appeal any decision made at this hearing, they will need a record of the proceeding and, for such purpose, may need to ensure that a verbatim record of the proceeding is made, which record includes the testimony and evidence upon which the appeal is to be based.

Attest:

Theresa McMaster
Theresa B. McMaster, City Clerk

Urban Uebelhoer
Urban Uebelhoer, Chairman