The City Commission joint workshop meeting with the General Retirement Board, Firefighters Retirement Board; and the Police Officers' Retirement Board was held on February 28, 2012 at 5:30 p.m. at the James P. Austin Community Center. The meeting was called to order by Mayor Michael S. Carter.

PLEDGE OF ALLEGIANCE

COMMISSIONERS PRESENT: Terrye Y. Howell; Jonathan Thornhill; Betty Wojcik; John Paul Rogers; Michael S. Carter; Mayor.

COMMISSIONERS ABSENT: None.

CITY REPRESENTATIVES PRESENT: Terry Leary, City Manager; Clara VanBlargan, City Clerk

Agenda Item 1. **Roll Call**

Agenda Item 2. **Lake Wales Pension Board Discussion**

The full presentation is incorporated into the minutes.

[Begin agenda memo]

On December 6, 2011 the City Commission held a workshop meeting concerning the employee pension plans. An outside consultant, Mr. James Linn, was invited to attend to discuss possible alternatives for the City. The City is facing a shortfall of nearly $8 million to fully fund the 3 pension plans. In this fiscal year alone, the City is required to contribute over $1.2 million. If this trend continues, it will be **unsustainable.** It is well known that all cities, especially in Florida, are facing serious revenue problems and many are looking for alternatives in their pension plans.

Our Actuary, Mr. Bradley Heinrichs of Foster and Foster, Inc. is here tonight to address these issues and to give us an understanding of where we are and where we are going. Mr. Heinrichs has agreed to this initial dialogue between the Boards, City Commission and Unions that looks at actuarial assumptions and methods, before we look to make changes to the plan.

We could ask the pension board to perform projections of future funding requirements for the next 5, 10, 15 years which would establish a baseline. We could then negotiate from that point. The main goal is to make the plans sustainable in the future.

The agenda for this meeting is straightforward and with the help of Mr. Heinrichs and the Pension Boards, we hope to come away with a better road map for the future.

AGENDA
1. Presentation by Mr. Brad Heinrichs, Actuary with Foster and Foster
2. Questions and Answers.
3. Adjourn

[End agenda memo]

Mr. Bradley Heinrichs, Actuary from Foster & Foster Inc., said the reason for the pension discussion is because pension costs have increased nationally over the last decade. He gave a slide show actuarial presentation (incorporated into the minutes).

Commissioner Wojcik asked the following questions:

- Commissioner Wojcik asked if the pension boards had already approved the 7.75 % investment return assumption and the 30-year amortization period. Mr. Heinrichs said they had.

- Commissioner Wojcik asked if the City was given a figure of how much they would need to budget. Mr. Heinrichs said he provided it to the board.
- Commissioner Wojcik asked if that would affect the unfunded liability and Mr. Heinrichs said it actually increased the unfunded liability but decreased the payment because it would be paid over thirty-years instead of ten. He said it's like a house mortgage, if you change your ten-year mortgage to a thirty-year mortgage, your payments would go down, though the cost of the house would go up.
- Commissioner Wojcik asked if because it was an assumption it would not be seen as debt. Mr. Heinrichs said it would not be piling on debt because the rate, the amount, and the route of payments would be changing.
- Commissioner Wojcik asked if a million dollars owed today would still be owed in thirty years. Mr. Heinrichs said they would still owe the same but the payments would be lower. He said by assuming that we would have a return of 7.75% instead of 8%, the million dollars would actually go up but the payments would be less.
- Commissioner Wojcik asked why there was such a big difference between the police pension and the fire pension. Mr. Heinrichs said the turnover for the firefighters tend to be less. He gave an example of a firefighter leaving after seven years. The firefighter contributed his 5% and the city contributed their amount, but when he leaves before being vested, he only gets back his 5% and the city's contribution stays in the plan. Therefore, the more turnover you get, the cheaper the cost. The age of the employee when hired also makes a difference because the older the employee, the higher the cost.

Mayor Carter made the following comments:

- Mayor Carter wanted the employees to know that in no way would he and some of the other commissioners he spoke with support reducing benefits. But the present system is unsustainable and the City cannot continue to do it. They are at the point that a choice will have to be made between continuing to fund at the present level and reducing services in another part of the City.
- Mayor Carter said he wasn't as concerned with 75 years down the road as he was about the next couple of years because we don't know when the economy will turn around.
- Mayor Carter said he was appreciative of what the board already did to reduce the cost.
- Mayor Carter said he was not sure the 7.75% investment return figure was realistic.
- He said he was disappointed with the presentation because it appeared that no matter what they do, the cost will go up and no solutions were presented. Mr. Heinrichs said there was no silver bullet or easy way to address the issues the way the Florida Statute is written. He gave an example of a case in Louisiana that was able to convert to a higher plan for new hires, and though there was no immediate change, over time the costs would go down. But, in Florida, if you change the pension for new hires in police or fire below the 1999 levels, the city would lose the state contribution which would increase the cost. He gave the following options:
    - They could reduce benefits for new hires down to the 1999 level, and not below.
    - They could float a bond that pays off the unfunded liability, though that has its risk. He gave an example of a city that floated a bond in 2008, right before the market fell. They wished they didn't do that because their cost went straight up and they will still have to pay back the note. Several other cities forfeited the state money so they could do whatever they wanted, as long as they didn't touch what employees already accrued.
    - They could decrease member benefits.
    - They could Increase member contributions.
    - They could keep the benefits but accrue future benefits at a lower rate.
- Mayor Carter said whatever they decide to do needs to be worked out with the pension board.

Commissioner Howell made the following comments and asked the following questions:

- Commissioner Howell said the City can't continue to do things the way it has. We have to stop doing things we can't afford.
- Commissioner Howell said there are certain things the city cannot do because of the Florida Statute and they can't change what was already accrued.

- Commissioner Howell suggested looking into changing the DROP program. Mr. Heinrichs explained how the DROP program works. An employee works until normal retirement age and then goes into the DROP. Behind the scenes, his benefit is calculated as if he retired at that point based on the current pay and current service. The City and the employee no longer have to contribute. It's cheaper on the pension if the member enters the DROP rather than work another five years gaining 3% a year, depending on salary increases, if any. The DROP is not a high cost driver of the plan and usually it is not a place to start when looking at savings.
- Commissioner Howell asked if the Commissioners would be responsible for coming up with the changes or someone else. Mr. Heinrichs said that changes will have to be negotiated between the City and the Union. Commissioner Howell asked what would happen if the Union and City can't find common ground. Mr. Heinrichs said there are proceedings that follow after an impasse. He said once the City determines its sustainable contribution rate, he will be able to provide options.

Commissioner Wojcik

- Commissioner Wojcik asked if a projection of contributions at a certain level could be put together. A member of the Police Officers' Retirement Board said that increases may not go on like they have been happening. He said going down to the 7.75% assumption and the other things they may do, will keep the cost from going up. He said he thought things would stabilize and then get better.
- Commissioner Wojcik said it would be helpful if they had the previous projections to compare with the new projections of what the City's contribution will need to be. A member of the Police Officers' Retirement Board said the projections for next year are expected to be a little better than last year's and with the changes being made, he thought they would see a potential drop in cost.
- Commissioner Wojcik asked if the pension board would be telling them what they need to do to smooth it out and Mr. Heinrichs said that was actually the job of Foster and Foster. He explained that they do an experience study every five years but every year they have a discussion with the board as it pertains to those kinds of things. He added that the City's input is always welcomed.
- Commissioner Wojcik said she thought that if the City goes with the 30-year projections instead of the ten-year projection, things would look different than what they were looking at. Mr. Heinrichs said that when you go to a longer amortization period it tends to dampen it out. The contribution doesn't change as much if the good and bad years are spread over a thirty- year period.

Mr. Heinrichs said there is a misconception that the City is doing nothing to pay off the unfunded balance. He said that over half the City's fund requirement, 26.7% of the payroll, is used to pay down the unfunded liability so it is not just sitting there. He added that once it is paid off, the pension fund will cost quite a bit less. The built up investment losses will be paid off over time. Mayor Carter said it will take a while for it to stabilize and recover and we have to deal with it on an annual basis. He gave an example of investing $10 which loses half. It will have to gain 100% before he gets back his lost $5.

Mayor Carter asked the following:

- Mayor Carter asked if the expected return has been the biggest problem and Mr. Heinrichs said it absolutely was. He pointed out in the packet where the pension plan was expecting an 8% return and got -2.39%, thereby losing 10.39%, which is really tough to recover and why the cost has gone up.
- Mayor Carter asked if it was fair to consider a significantly lower expected return on a short term basis, to be reviewed every year, until the economy starts to turn around. Commissioner Wojcik said x amount of dollars need to be contributed, but if you lower the assumption to a conservative 4%, the city's contribution would be way higher. Mr. Heinrichs said every 4% drop in the assumption increases the cost 3%. He noted that salary increases have not been as high as projected so if that assumption is decreased, smaller benefits could be projected for less cost. Another problem is that the state has its own actuaries who review the reports and if they think you are getting too aggressive with your assumptions they will reject the report. If you don't change it, they withhold the state money.

Commissioner Thornhill made the following comments:

- Commissioner Thornhill asked if we would lose the state money by going with the tiered plan. Mr. Heinrichs said you would lose the money if the benefits are lowered below the 1999 amount.
- Commissioner Thornhill said he didn't want them to make too much of a shift and then have to change it.
- Commissioner Thornhill said the only thing we can do is change the multiplier or the member contributions. He said they will have to look at every angle, and work together to make a choice.

Commissioner Wojcik asked if Mr. Heinrichs thought the state actuaries were reasonable. Mr. Heinrichs said he did not think they were reasonable. He said the state says 30 years is the largest amortization you can do, which was the reason he insisted that the boards go to a shorter amortization scale. We did not want to get into a fight with the state over what constitutes a good assumption versus a bad assumption. The state doesn't want cities to shift the burden from one generation of tax payers to the next. So they are trying to make sure the costs are being fairly attributed to the present generation of tax payers. He believes that is reasonable.

Finance Director Dorothy Pendergrass said that Mr. Heinrichs told her he could look at the assumptions related to the payroll and she asked that the board consider having that done. She said the board had talked about assumptions before and the 30-year amortization and she said that it would make a difference. When they are sitting at the negotiation table later on, she said it would be nice to know the starting place because we are going to be a half million dollars short in revenue. Mr. Heinrichs said it will be three years before the state looks at the report because it did so last year. Commissioner Wojcik asked if in the meantime we just go on with the same assumptions. Mr. Heinrichs said yes.

Ms. Pendergrass said that if we lower the payroll amortization from 6.25% to 5% five years from now we start getting large raises to make up for all the years we didn't get one. Mr. Heinrichs said we need to use the best assumption as possible because if we don't pay now, we pay later.

City Manager Terry Leary thanked Mr. Heinrichs for the explanations and said she now has a clearer picture of where the City is headed.

There being no further business the meeting was adjourned.

Mike Carter
Mayor/Commissioner

Clara VanBlargan
City Clerk