

**CITY OF TEMPLE TERRACE, FLORIDA
MAYOR AND CITY COUNCIL
REPORT OF WORK SESSION**

**Tuesday, June 15, 2010
Council Workroom
5:00 p.m.**

Having been duly advertised as required by law, the Mayor and City Council of the City of Temple Terrace, Florida, met in a work session, beginning at 5:00 p.m. on Tuesday, June 15, 2010, in the Council workroom in the rear of Council Chambers, for a Work Session to receive and discuss the status of Police and Fire Pension Plans and their respective funds.

PRESENT WERE: Mayor Joe Affronti, Council Members Alison M. Fernandez, Ron Govin, Ken Holloway, City Manager Kim Leinbach, and City Clerk Lisa Small.

ABSENT WAS: Council Member Mary Jane Neale.

ALSO PRESENT WERE: Deputy City Clerk Jeannie Barlow, Finance Director Diane Reichard, Police Chief Ken Albano, Human Resources Director Woody Hubbard, Public Information Officer Michael Dunn, Code Compliance Director Joe Gross, Fire Chief Keith Chapman, Police Lieutenant Darren Berberat, Assistant Fire Chief Ian Kemp, Police Pension Board of Trustees Chairman Mike Lowell, Firefighters Pension Board of Trustees Chairman Roger Chewning, Robert Boss, Dave Becker and several others.

Mayor Affronti called the work session to order at 5:00 p.m. He opened the work session stating that he had called this meeting to discuss the status of the City's pension plans. He felt it was incumbent upon the Council to be cognizant of the state of the plans. He explained that the unfunded liability could become a problem if cities were not kept informed on the status of their existing plans. Mayor Affronti noted, for example, that California had a \$500 billion dollar unfunded liability. In his opinion, unfunded liabilities could not be sustainable on a long-range basis. He introduced Finance Director Diane Reichard to further explain the status of the City's existing pension plans.

Finance Director Diane Reichard explained that her introduction was similar to the information the Mayor just provided. She indicated that newspaper articles have reported negatively on the state of pension plans for public employees, indicating that the plans had lost \$600 billion and funding was at its lowest in twenty years. The Finance Director stated that such negativity was undesired in Temple Terrace and that staff had taken a positive approach in addressing this issue. She commented that the City, as a public employer, had a responsibility to not only its employees, but to City taxpayers as well. She stated that the City has a duty to provide services to the taxpayers as inexpensively as possible.

Finance Director Reichard commented that discussions had occurred regarding this issue between the chairmen of the two pension boards. She noted that discussions had continued in a Council workshop that had occurred on April 21, 2009, when Patrick Donlan, representing Foster and Foster, had explained the pension fund system and the assumptions behind all the calculations. She noted that it was at this meeting when City officials were told that the City had an unfunded liability. The Finance Director indicated that the Police Pension Fund was currently at an unfunded liability of 54.9% while the Fire Pension Fund was currently at an unfunded liability of 70.05%. She explained to the Council the position of being at an unfunded actuarially accrued liability.

City Manager Kim Leinbach interjected that in actuality the City's plans were funded 54.9% in police and 70.05% in fire.

Finance Director Reichard concurred that was a correct statement, but explained that assets in both plans were only a designated percentage (54.9% in police and 70.05% in fire) of the liabilities that the actuary was assuming that the City would have over the lives of the plans. She explained that to be actuarially funded, the actuary had examined the plans and had determined that this would be the amount that the City would be able to pay if the debts were amortized over thirty years. She explained that he had determined that although the plans were sound, the actuarially funded percentage ratio had continued to decline. The Finance Director noted that in 2003, the police fund's funded ratio was at 88%, noting that since that time it had declined to the 54% that it was at today, while fire's fund had been at 87% in 2003, and was currently at 70% today.

The Finance Director explained the impact these percentages would have on the City's 2010/2011 budget, noting that the City had budgeted 22.55% of fire salaries to equal \$585,000 and 35.5% of police salaries to equal \$1,033,000 in total costs for the City's police and fire pension plans for the next fiscal year. She explained that these percentages were based on what the actuary had determined would be necessary for the City to contribute in order to maintain both plans as actuarially sound. She noted that a required fund ratio did not exist for the pension plans although the City's funding ratio had been at almost 100% in the late 1990's.

The Finance Director stated that, as in any financially sound accounting practice, revenues needed to exceed expenses. She explained that only three revenue sources existed in pension plans which consisted of employee contributions, employer contributions and state contributions. She commented that the State contribution was referred to as a State Excise Tax or Premium Tax. She indicated that in 1999, the State determined that since public safety faced additional risks, any additional taxes that were collected over the funded amount were to be used for extra benefits. The Finance Director explained that this funded amount was frozen in 1999, and, since that time, all additional amounts collected above the frozen amount had been designated towards extra benefits; meaning a perpetual benefit increase for police and fire employees. Conversely, she explained, the amount of Premium Tax that the City has received has declined as a percentage of salaries. Specifically, the Director stated that the City received a Premium Tax of \$51,000 for police (\$62,000 for fire) in 2003 when the funded ratio was at 86% (88% for fire), but presently the City received a tax of \$146,000 for police (\$123,000 for fire) and the funded ration was at 54% (70% for fire). She explained through example that if the City received \$100 to pay a salary of \$100, the salary would be covered. However, she noted, that after a raise of 5%, the \$100 would no longer cover the \$105 salary. She commented that by calculating a 5% increase annually, in thirty years the \$100 would be applied to a \$400 salary. She stated that she believed that this was the result of unintended consequences of the law that went into effect in 1999.

The Finance Director reviewed the minimum plan requirements as outlined in Chapters 175/185 of the Florida Statutes. She stated that the minimum benefits were calculated at a 2% multiplier (2% x years of service) to equal what would be received upon retirement age, noting that retirement age could not occur prior to age 55 with 10 years of service. She commented that the City had provided a more than adequate benefit package to its police and fire employees, as their benefit packages exceeded the minimum as required by State law.

Finance Director Reichard indicated that the decline in the City's unfunded actuarially accrued liability was due to several factors. She explained that the several factors included poor investment returns over the last two years, increased benefits due to Excise Tax dollars, plan benefit improvements, early retirement provisions when investment returns exceeded actuarially assumptions, declining contributions during financially productive years, and higher wages than anticipated by the actuary.

The Finance Director explained the actuarial assumption and cost method by noting that this method did not change the real cost of the plan. She explained that the real plan cost was "X" (the amount the actuary determined what it would cost the City in the future to pay out), and the only change was the timing of the payments. She noted that to erase the unfunded liability in ten years, the City would divide the amount by ten and pay that figure annually until the amount was paid in full ten years later. She commented that determining this formula was the actuary's duty.

The Finance Director discussed the City's options to reduce the unfunded liability and emphasized that any option pursued would be legally sound. She suggested that several viable options would be to create a new plan for new hires, establish a funding floor for the City at 25% to increase assets during financially productive years, and/or to determine an unfunded percentage that was actuarially acceptable to the City. She explained that if the creation of a new plan for new hires was to be considered, then the multiplier for future years would need to be rolled back, remove or delay the cost of living adjustment (COLA), extend the normal retirement age, raise employee contributions, increase the number of years in final average compensation, and/or implement a stop/start date to freeze benefits to change the amount the City would use against the frozen percentage.

The Finance Director explained that the Director of Human Resources had prepared a comparison survey for the council's consideration which Mr. Hubbard would explain to the Council.

Human Resources Director Woody Hubbard indicated that the survey he had disseminated to the Council had been performed in 2009 by the Division of Retirement in Tallahassee noting that 311 cities were surveyed to provide information for a comparison analysis. He commented that his comparison had focused on Temple Terrace and five other cities to include Plant City, Tampa, Tarpon Springs, Safety Harbor and Pinellas Park. He noted that Temple Terrace's information could be located on page 27 of the survey. He stated that he had focused on five major categories for his comparison study to include "25 years and out or better", to which Temple Terrace police could retire after 20 years, regardless of age, and fire could retire after 25 years, regardless of age. His second category was "Benefit Accrual Rate", to which Temple Terrace police and fire could accrue at 3.50%. His third category was "Cost Of Living Adjustment", which was provided at a rate of 3% to police and fire. His fourth category was "Average Final Compensation" to which Temple Terrace police was calculated at the best three out of five years of service, and to which fire was calculated at the best four out of ten years of service. His next category was "Vesting", which was ten years for police, five years if hired before 10/1/90, and ten years for fire.

Human Resources Director Hubbard continued that his last category for comparison was “Member Contribution”, which calculated to 11.20% for police and 10.51% for fire. He indicated that he selected the aforementioned categories because they were strong money factors. He used the Temple Terrace information to compare to Plant City. He stated that Plant City offered the following to their police and fire. He noted that for “25 years and out” police and fire could retire after 20 years of service, regardless of age. He stated that the “Benefit Accrual Rate” was 3.75% for both police and fire, noting that Plant City seemed to offer a richer plan to its employees than what is offered in Temple Terrace. He commented that on the negative side Plant City did not offer a COLA to its police and fire. He explained that the “Average Final Compensation” was the best five out of ten for both police and fire, “Vesting” was ten years, and “Member Contribution” was calculated at 10% for both police and fire.

The Human Resource Director continued with his discussion of the survey by isolating the City of Tampa’s information for comparison purposes. He noted that both police and fire could retire in Tampa after 20 years of service regardless of age, the “Benefit Accrual Rate” was at 3.15%, a COLA was offered to both departments, the “Average Final Compensation” for both police and fire was based on the best three out of ten years of service, “Vesting” was ten years and “Member Contribution” was calculated at 14.7% for both police and fire. He noted that the City of Tampa contributed 19.7% to both plans while the City of Temple Terrace contributed 35.5% for police and 22.5% for fire.

The Human Resources Director continued with his discussion of the survey by isolating the City of Tarpon Spring’s information for comparison purposes. He indicated that the City of Tarpon Springs had approximately the same number of employees as the City of Temple Terrace. He noted that both police and fire could retire in Tarpon Springs after 25 years of service regardless of age, the “Benefit Accrual Rate” was at 3% for police and 3.25% for fire, a COLA was only offered to fire, the “Average Final Compensation” for police was based on the best five out of ten years of service, and fire was further delineated to the best five out of ten years or career average, whichever was greater. He stated “Vesting” was ten years and “Member Contribution” was calculated at 8% for police and 4.5% for fire. He explained that he had not contacted the City of Tarpon Springs to ascertain its contribution to the pension plans.

The Human Resources Director continued with his discussion of the survey by isolating the City of Safety Harbor’s information for comparison purposes. He indicated that the City of Safety Harbor was smaller in size than the City of Temple Terrace. He noted that both police and fire could retire in Safety Harbor after 25 years of service regardless of age, the “Benefit Accrual Rate” was at 3% for both police and fire, a 2% COLA was offered to both departments, the “Average Final Compensation” for both departments was the best five out of ten years of service, “Vesting” was ten years and “Member Contribution” was calculated at 1% for both police and fire. He emphasized that due to the minimal contributions made by police and fire employees, employer contributions to the plans would exceed 40% .

Council Member Govin inquired as to the size of Safety Harbor.

The Human Resource Director responded that he thought Safety Harbor was about half the size of Temple Terrace and employed approximately 180 people.

The Human Resources Director commented that the last city he used for a comparison to Temple Terrace was the City of Pinellas Park, which is somewhat larger in size than the City of Temple Terrace. He noted that both police and fire could retire in Pinellas Park after 20 years of service regardless of age, the "Benefit Accrual Rate" was at 3.25% for both police and fire, a COLA was offered to both departments, the "Average Final Compensation" for both departments was the best three out of five years of service, "Vesting" was ten years, and "Member Contribution" was calculated at 5% for police and 7.44% for fire.

The Human Resource Director summarized that, based on information contained in the survey, the City of Temple Terrace's member contribution rate appeared higher than that of other cities in the survey. He did note that the City of Tampa appeared to have the highest member contribution rate, but commented that the City of Temple Terrace was in the upper 3% of cities tabulated for survey purposes.

Mayor Affronti indicated that, in his opinion, a city's contribution to the pension plans would be the most important factor to examine in the survey when performing a comparison to the City of Temple Terrace.

The Human Resources Director explained that City contributions had not been delineated in the survey.

Council Member Fernandez said she believed that employee contributions would be an important factor when performing a comparison, because when considering changing departments, employees were concerned with the percentage of their salaries that would be designated for retirement.

Roger Chewing commented that he had examined all the fire pension plans in the survey and had determined that Temple Terrace's City contributions were just under the average in comparison to other plans. He mentioned that he had determined from examining 185 fire pension plans, that the average employee contribution rate was 6.5% and the average employer contribution rate was 23%.

The Human Resources Director referred to the last page of the survey where totals to all the columns had been calculated. He explained that out of 311 cities surveyed, 169 offered "COLA" and 191 offered "25 years or better", regardless of age, to retire.

Council Member Fernandez queried as to the absolute minimum pension contribution the City would have to contribute next year.

Finance Director Reichard explained that she did not currently have that information available, but she indicated that total contributions would equal employee contributions (their designated percentage multiplied by their salaries), the State's frozen amount for the Excise Tax, and the City's contribution of \$585,000 for fire department employees and \$1,033,000 for police department employees.

Council Member Fernandez commented that, based upon those figures, the total contribution would equal almost \$2 million.

Council Member Fernandez stated that the total amount in the General Fund was \$21.9 million, and noted that pension contributions comprised a large amount of that fund. She questioned whether the decline in the funding percentages was due to the unfunded mandates caused by accepting the additional funding, which could not cover the increase in benefits, or if the decline in funding percentages was due to the weak market.

Finance Director Reichard indicated that those assumptions were correct. She noted that the State Premium Tax dollars had caused a burden on many cities in the State. She explained that although the market decline had negatively impacted the City's funding percentages, the actuarial determination of what the City contributed, which had been determined to be a smaller percentage in financially productive years, actually caused a larger problem during financially unproductive years. She did emphasize that the Excise Tax requirements vis a vis extra benefits for employees, was especially burdensome to the City. The Finance Director also noted that the State had been considering calculating the City's actuarial amount at ten years as opposed to the current thirty years, and explained that if this had happened it would have had a devastating effect on the City's financial well-being.

Mike Lowell explained that both pension boards were seriously reviewing the pension funds. He noted that an additional investment manager had been hired in order to calculate ways to increase returns into the funds. He explained that five of the years since 2004, actuarially losses had been received due to investment returns not meeting the actuarial assumptions, in turn causing the unfunded liabilities. He noted that an experience study had been recently performed to review the past ten year performance of the funds, which resulted in the finding that the rate of return assumptions should be lowered to properly fund the pensions. He noted, however, that the finding had not yet been implemented because doing so would dramatically increase the City's contribution to the pension plans.

Council Member Fernandez stated that if the City determined that it would fund at a higher rate than what was required in financially productive years, the rate of return assumptions could be lowered for employees.

Mr. Mike Lowell explained that many cities overfunded their pension plans in financially productive years to counter balance the years that were not as prolific.

Council Member Fernandez indicated that she would like to know how other cities were addressing these concerns and she also wanted guidance on this issue from the pension boards.

Mr. Roger Chewning stated that he had attended several conferences in the State which had discussed the concerns before the council tonight. He indicated that due to the poor economy, the amendments in place which have further reduced income to the cities, and the decline in real estate values, many cities were in poor financial state in regard to their pension plans. He stated that the cities who had established an emergency fund in financially productive years to off-set the costs of the plans in financially unproductive years were in much better shape financially than cities that had not set up emergency funds. He commented that the State of Florida was funded at 80% currently, due to an emergency fund that had been established to assist pension funding during poor economic times.

Mike Lowell indicated that during the market crash in 2008, many pension funds in the State lost up to 60% of their values because they were comprised of aggressive funds. He explained that the City's pension funds lost only 11.8% due to conservative investment strategies to protect the funds in poor economic years.

Council Member Govin mentioned that he felt that the City could be more proactive in addressing these concerns.

Council Member Halloway commented that the City needed to research its options.

Council Member Knapp indicated that in 1996-1997 the City's unfunded liability was at 100%, and he questioned whether the City's contributions were reduced, stayed constant, or increased over the past ten to twelve years.

Finance Director Reichard responded that two major issues occurred over that ten to twelve year period. She noted that benefit improvements had been implemented, combined with the State's initiative to freeze Excise Tax dollars in 1999, so that cities were mandated to use the overage in tax dollars for added employee benefits as opposed to being able to use the monies to finance pension funds.

Council Member Knapp stated that his concern was in regard to the City's financial behavior over the past twelve years because, during financially productive years, the City designated less money into pension funds in order to balance the City budget.

City Manager Leinbach responded that the City adhered to the actuary's dictates for funding the pension plans.

Mr. Lowell stated that, based upon the actuary's calculations, the City's payment could theoretically be reduced to zero, depending on the investment returns received for that particular year.

Council Member Fernandez suggested that investment losses, combined with the State's directive to use Excise Tax dollars to fund extra benefits, were the reasons that the City's unfunded liability had declined dramatically to 54%.

Mr. Chewning explained that the overage in tax dollars was used to fund extra pension benefits, but as the cost of the benefits increased annually, member contributions had increased to cover the additional costs.

Council Member Knapp noted that anything below a 75% threshold would not provide him with an adequate comfort level.

Council Member Fernandez interjected that citizens could be highly critical if they felt that a city was too well funded in its pension plans because they could feel that this practice was not making good use of public dollars. She agreed that she felt that 75% would be a good threshold, but wanted Council Members to be cognizant of potential criticism when using this threshold during productive economic times.

Council Member Govin commented that the investment market had not improved over the last three years and expressed concern that the City needed to take a proactive approach in addressing its declining unfunded liabilities percentage as regards its pension funds. He noted that the City was hampered by the State's mandate that additional tax funds be designated towards extra pension benefits, as opposed to being used to reduce the unfunded liability. He suggested that a formula needed to be developed in order to prevent the City's unfunded liability from dropping below its current level of 54%.

Council Member Knapp questioned how the City's proposed contribution of \$1,033,000 for police and \$585,000 for fire compared to last year's figures.

Finance Director Reichard responded that the City's proposed contributions were 9.2% higher for police pensions and 1.1% lower in fire pensions. She explained that two years ago, the City's contribution totaled \$653,000 for police pensions and \$495,000 for fire pensions.

Council Member Knapp suggested the Council establish a goal of 75% funding so that future Council Members would not encounter the same problem as the Council is being faced with today.

Mayor Affronti stated that he had wanted to bring this issue to everyone's attention so that it would not be a surprise to anyone in the future.

Council Member Fernandez questioned what happened to pension funds in municipalities facing bankruptcy.

Mike Lowell responded that Chapters 175/185 of Florida Statutes address dispersion of funds after bankruptcy, noting that members would not be provided with full benefits at that point. He explained that under Florida law, municipalities are required to actuarially fund their pensions, noting that this requirement may not exist in other states. He remarked that in California, for instance, pension funds were not actuarially sound and bankruptcy problems did exist. He indicated that the City of Temple Terrace's plans were still viable, even though the funding ratios were lower than what should be acceptable.

Mayor Affronti questioned if anyone had any other questions or concerns. The consensus of the Council was to support 75% as a goal or benchmark for the threshold for funding the City's pension plans.

City Manager Leinbach stated that he would research the City's request to establish a 75% funding goal.

Council Member Govin said that he believed that the Council should vote formally on this issue at the Council meeting. Mayor Affronti indicated that he would add this item to the agenda under "New Business".

The work session concluded a 5:54 p.m.

Submitted by,

Jeannie Barlow
Deputy City Clerk

