FINAL

BUDGET ADVISORY BOARD MEETING
CITY OF FORT LAUDERDALE
100 NORTH ANDREWS AVENUE
8TH FLOOR CONFERENCE ROOM
FORT LAUDERDALE, FLORIDA, 33301
SEPTEMBER 21, 2011 – 6:00 P.M.

		10/2010 through 9/2011 Cumulative Attendance	
Board Member	**Attendance**	**Present**	**Absent**
June Page, Chair	P	12	0
Anthony Timiraos, Vice Chair	P	10	2
AJ Cross	P	8	2
Nadine Hankerson	A	6	5
Fred Nesbitt	P	12	0
Drew Saito	P	1	0
Alan Silva	P	11	1
Mark Snead	P	12	0
Ray Williams	P	7	5

City Staff
Norm Mason, Staff Liaison, Assistant Budget Director
Douglas R. Wood, Director of Finance
John Herbst, City Auditor
Lynda Flynn, City Treasurer
Kirk Buffington, Procurement Department
Darlene Pfeiffer, Transportation and Mobility Department
Stanley Hawthorne, Assistant City Manager
Lee Feldman, City Manager
Barbara Hartmann, Prototype Inc.

Also present
Steven Scott, new Board member
Andrew Russo, new Board member

Communications to the City Commission
Motion made by Mr. Silva seconded by Mr. Williams, to amend the reserve policy so that the unrestricted fund balance be increased from 10 to 15% to no less than 17% of the total appropriations for operating expenditures and required transfers out, in accordance with the rules of the Government Finance Officers Association (GFOA). In a voice vote, motion passed unanimously.

Motion made by Mr. Snead, seconded by Mr. Timiraos, that the City establish a policy that when any enterprise fund's working capital balance appeared to be in danger of falling below 45 days of operating expenses, a plan of action would be developed to ensure a return of it to the 90-day level. In a voice vote, motion passed 4 – 3 with Mr. Williams, Mr. Cross and Mr. Silva opposed.

PURPOSE: To Provide the City with input regarding the taxpayers' perspective in the development of the annual operating budget; to review projections and estimates from the City Manager regarding revenues and expenditures for upcoming fiscal year; to advise the City Commission on service levels and priorities and fiscal solvency; and to submit recommendations to the City Commission no later than August 15 of each year regarding a budget for the upcoming fiscal year.

1. Call to Order/Roll Call

Chair Page called the meeting of the Budget Advisory Board to order at 6:04 p.m.

Chair Page noted that two residents who would be Board members next month were present: Steven Scott and Andrew Russo.

Board members introduced themselves in turn.

2. Review of Meeting Minutes from July and August 2011

Mr. Timiraos noted a correction to the July minutes.

Motion made by Mr. Nesbitt, seconded by Mr. Silva, to approve the minutes from the July meeting. In a roll call vote, motion passed 8 – 0.

Motion made by Mr. Silva, seconded by Mr. Snead, to approve the minutes from the August meeting. In a roll call vote, motion passed 8 – 0.

3. General Fund/Enterprise Funds Reserves

General Fund Reserves

Mr. Silva proposed that the reserve policy should be changed to represent two months of reserves or approximately 17%.

Motion made by Mr. Silva, seconded by Mr. Williams, that the reserve policy be amended that the undesignated reserves be increased from 10 to 15% to no less than 17% in accordance with the rules of Government Finance Officers Association (GFOA).

Mr. Herbst stated the GFOA had increased their recommendation to two months of operating expenses. Mr. Herbst said they did not want to overtax residents just for the sake of building a bank account, but they wanted the ability to withstand any downdraft in the economy.

Mr. Herbst suggested focusing on the operating budget expenditures, plus transfers out, since this is what the reserves would need to cover. Mr. Silva said not included in expenses would be: transfers to the CIP, transfer for general debt obligations and reserves.

Mr. Herbst suggested the language, "17% of the total appropriation for operating expenditures and required transfers out." Mr. Silva and Mr. Williams agreed to this amendment.

Mr. Silva's amended motion now read: to amend the reserve policy so that the unrestricted fund balance be increased from 10 to 15% to no less than 17% of the total appropriations for operating expenditures and required transfers out, in accordance with the rules of the Government Finance Officers Association (GFOA). In a voice vote, motion passed unanimously.

Enterprise Fund Reserves

Mr. Wood stated the issue was how much would be sufficient working capital if the revenue stream were interrupted. He described how the enterprise fund working capital was calculated. Mr. Herbst remarked that the $35 million of unreserved fund balance was not really a reserve because they were bond funds waiting to be spent on capital projects. He asked if there was a significant amount of money in the water and sewer fund that was unreserved and undesignated. Mr. Wood replied that he had cut out the restricted portion and there were millions of dollars available.

Mr. Wood explained that 45 days would be appropriate for enterprise funds but they currently had no policy. He drew the Board's attention to the staff recommendation for the water and sewer fund. He recommended a 90-day working capital with a minimum of 45 days before they needed to take some kind of official action.

Mr. Nesbitt said they had discussed what should occur when they fell below the minimum and above the maximum in different funds. Mr. Herbst said this was included in what they had been discussing earlier regarding the GASB 54 implementation. Regarding the storm water fund, he said the resources were being accumulated in anticipation of undertaking work associated with the stormwater master plan. Mr. Herbst said Mr. Wood intended to bring to the Commission a fund balance designation policy in order to comply with GASB 54. He explained there would now be the following categories: non-spendable; restricted; committed; assigned and unassigned.

Mr. Herbst explained the fee-funded activities for which the City charged based on the cost of providing services. He informed the Board that the fees must bear a reasonable relationship to the cost of providing the services; they could not be built up arbitrarily and swept into the general fund. Mr. Wood said he was asking for a policy to set aside some funds to be sure they had cash in the bank to pay the bills if the revenue stream were interrupted or they had another major hurricane. Mr. Herbst advised Board members to examine the rate study in order to understand the thought process regarding rates and reserves.

Mr. Timiraos felt the Board was not clear enough to make a recommendation. Mr. Cross thought the projects assigned against this fund should be assigned assuming that this fund could pay for them. He also did not believe any body should have the ability to apply the money elsewhere. Mr. Cross said that there must be a policy regarding this control.

Mr. Herbst stated the City performed frequent rate studies to determine what they needed to support operating expenses, sufficient operating reserves, repair and renewal and debt service. If they generated excess revenues, the rate study would return a number that was either flat or reduced.

Mr. Snead said he was willing to move to recommend a 45-day floor, and if any fund approached that, something must be done to correct it. He felt they needed more time to discuss what to do if it floated up to 90, 400 or 1,000 days.

Motion made by Mr. Snead, seconded by Mr. Timiraos, that the City establish a policy that when any enterprise fund's working capital balance appeared to be in danger of falling below 45 days of operating expenses, a plan of action would be developed to ensure a return of it to the 90-day level. In a voice vote, motion passed 4 – 3 with Mr. Williams, Mr. Cross and Mr. Silva opposed.

Mr. Herbst recommended that discussion of this item be postponed until Board members could review a copy of the rate study.

4. Issuance of bonds to offset unfunded pension liabilities

[This item was heard out of order]

Mr. Williams remarked that there were financial risks associated with this type of transaction. He stated people who were economically astute were concerned about this because it would affect their ability to negotiate with Fire and Police regarding pensions. Mr. Williams felt the City Commission had been pressured to approve this without fully understanding the financial leverage and risks that were associated with it.

Mr. Herbst said there had been a lengthy discussion regarding pension obligation bonds with a number of participants the previous evening.

Mr. Feldman recalled the Sun Sentinel article regarding the pension obligation bonds which had mischaracterized what the bonds were, as money the City would borrow in order to outperform the pension plan. Mr. Feldman said the City had an unfunded liability for the pensions plan totaling approximately $300,000,000. He explained that the City was required to pay interest on the unfunded liability at 7 3/4%. This meant that each year the City's pension contribution for both plans contained $26 million in interest. The premise of the pension obligation bonds was that if they could borrow the money, or portion of the money at a lower interest rate, this represented a savings to the City.

Mr. Feldman stated there were some risks, the largest of which was the possibility of a sharp downturn in the stock market. He said Mr. Herbst had the idea not to put the full $200 million in the bond fund immediately, but to put it into a series of bonds. Mr. Feldman remarked that cities in trouble with their defined benefit plans were cities that had large unfunded liabilities. He said this was not a deterrent to negotiating Police and Fire pension benefits. Mr. Feldman said the biggest problem in the State of Florida with pension benefits was the minimums the State legislature was imposing in order to accept the Chapter 175/185 monies.

Mr. Feldman said Mr. Herbst had recommended modifying the pension ordinance to require a supermajority of the Commission to grant revisions to pension benefits. Mr. Feldman said the Commission recognized that if they did not issue the pension obligation bonds now they would need to fill a $6 million hole.

Mr. Herbst had researched pension obligation bonds and found that most issued since “the crash” were now underwater. He remarked that the failing bonds had been issued by ”shaky issuers” who were on the verge of bankruptcy to begin with. He explained that the City had a long-term debt currently financed at 7.75% which they would replace with another long-term debt at roughly 5%. Mr. Herbst wanted a full actuarial report to validate assumptions in the studies regarding pay increases, mortality rates and turnover rates. He also wanted the City’s financial advisor to stress test this. Mr. Herbst explained that this did entail risk, but they had the ability to minimize, manage and transfer some of that risk.

Mr. Nesbitt discussed some recent “horror stories” regarding pension funds in other states, and remarked that none of this was happening in Fort Lauderdale. Mr. Herbst was well aware of these problems, and stated there was nothing wrong with the product; it was the way it had been used.

Mr. Williams could not believe the 7.75% return was realistic; Mr. Herbst stated the actuaries were comfortable with this estimate. Mr. Feldman explained that this was over 30 year period. Mr. Herbst said their 20-year return on the Police and Fire pension was 9%. Ms. Pfeiffer reported that for the last five years, GERS returns had been 5.5%; last year the return had been 25%.

Mr. Herbst said they must perform a full experience evaluation as part of this process.

Mr. Silva said he did not have a conceptual problem with the idea of the pension obligation bond. He felt that one deterrent to full scale pension reform had been that the unfunded liability was so large it would have been prohibitively expensive to buy out or close the plan. Mr. Silva felt there should be a charter change stating that a change to the pension system should be put to the voters because this was tantamount to a general obligation and would continue for 30, 40 or 50 years. Mr. Feldman felt it should be done as a bond covenant stating that as long as the bonds were outstanding they could not be modified.

Mr. Silva felt issuing a bond for OPEB would be helpful as well, in order to provide it a corpus. Mr. Feldman explained that they had been contributing $1 million per year into the OPEB liability. If they could fund an OPEB bond with less than $1 million per year in debt service this would be a win for the City.

Mr. Williams thought a bond covenant might be the easiest way to preclude changes later on. Mr. Feldman said he would be exploring this.

Mr. Herbst explained that the new GASB requirements for fund balance recording format gave them the ability to designate this in an official way. Once this was done they could begin to address the appropriate investment policy for the designated funds.

5. Old Business

- Review of Recommended FY 2012 Budget
- Recommendation on dedicating reserves for special projects (911 call center, pension reform, post-employment retirement benefits, etc.)
- Working capital needs
- Reorganization

Chair Page asked Mr. Hawthorne what the cost savings and efficiencies would be. Mr. Hawthorne explained that they had established a staff committee task force. They were now giving the departments the opportunity to make assessments. The task force would meet once per week to receive updates and make recommendations for improvements. Mr. Hawthorne noted the City Commission must approve any changes suggested by the City Manager. He stated they were in negotiations with the two general employees' unions, Federation and Teamsters, and he anticipated that tentative agreements, including an early retirement proposal, would be presented to the City Commission at their next meeting.

Mr. Hawthorne said the formula they assumed for actuarial study purposes was that 25% of eligible employees would take advantage of an early retirement program. If one assumed those numbers, the actuaries assumed the City would replace 80% of those positions. Mr. Feldman believed they would only need to replace half of those positions.

Mr. Hawthorne said their goal was that by January 1, 2012, they would have all legal aspects ironed out. There were other components and systems that need to be updated, including a budget amendment to get the dollars reallocated for the new departments. Mr. Snead suggested that until the process was completed the Board should review this item every month and the Board agreed.

Mr. Russo asked if there were any figures regarding efficiencies and cost savings yet. Mr. Hawthorne said they had not developed a dollar number; he said they were at the beginning stages of developing performance measures and process improvements and these would be associated with reorganization.

Mr. Nesbitt wanted to be sure the following month's agenda included discussion of contracting out payroll.

Mr. Williams suggested that in the future any RFP for potential outsourcing would be drafted by someone independent of that department, someone who would not be affected by the outsourcing.

- Budget Process Reformation to include the BAB
- Five-year Financial projections
- Status Report on Budget Advisory Board Recommendations
- Status of BAB communications to Commission

Chair Page asked Mr. Hawthorne for an update on the Board's previous recommendations and their previous communications to the City Commission at their next meeting.

6. New Business

None.

7. Communication to the City Commission

[Discussed earlier]

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8. Adjournment

Mr. Mason advised the Board to make a motion setting a date for their next meeting.

Motion made by Mr. Nesbitt, seconded by Mr. Snead, to set the Board's next meeting for October 19. In a voice vote, motion passed unanimously.

Chair Page thanked Mr. Williams for his service to the Board.

With no further business to come before the Board, the meeting was adjourned at 8:17 p.m.

[Minutes prepared by J. Opperlee, Prototype, Inc.]