FINAL
BUDGET ADVISORY BOARD
SPECIAL MEETING
CITY OF FORT LAUDERDALE
100 NORTH ANDREWS AVENUE
8th FLOOR CONFERENCE ROOM
FORT LAUDERDALE, FLORIDA, 33301
AUGUST 1, 2012 – 4:00 P.M.

Board Member	Attendance
June Page, Chair	A
Mark Snead, Vice Chair	A
Brady Cobb	A
AJ Cross	P
Nadine Hankerson	A
Fred Nesbitt	A
Bryson Ridgway	P
Drew Saito	P
Anthony Timiraos	A
Andrew Russo	P

Personnel Attending
Stanley Hawthorne, Assistant City Manager
Susanne Torriente, Assistant City Manager
Emilie Smith, Budget Manager
Amy Knowles, Assistant City Manager
Marco Hausy, Auditor's Office
Kirk Buffington, Deputy Director of Finance
Mike Maier, Chief Technology Officer
Lynda Flynn, City Treasurer
Norm Mason, City Manager's Officer's Office
Diane Lichenstein, Research and Budget
Lee Feldman, City Manager
Doug Wood, Finance Director

Communications to the City Commission
None

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

Mr. Cross called the meeting of the Budget Advisory Board to order at 4:07 p.m.

2. Pension Obligation Bond [POB] Discussion

Mr. Feldman said the Sun-Sentinel article had led the public to believe that the City needed to borrow money in order to make their pension payment. He stated this was untrue; this was a savings plan designed to refinance their unfunded liability of $400 million at a lower interest rate. Current market rates were approximately 3.5% compared to the 7.5 – 7.75% they were currently paying.

Ed Stahl from First Southwest gave a presentation, a copy of which is attached to these minutes for the public record.

Mr. Russo asked how future negotiations would affect the existing $400 million debt. Mr. Feldman said in Florida, a pension was a property right and once one was vested, the benefit could not be revoked. He explained that traditionally, the City had funded benefits in the current year with a 29-year amortization of the entire costs of the benefit, creating unfunded liability. It was possible to structure plans to be fully funded up front, at a huge cost. Mr. Feldman said cities that had issued POBs were in a much better position to say "no" to new benefits than cities that had not, because the costs of the unfunded liability could be demonstrated publicly.

Mr. Russo asked if the City had the additional $6.5 million needed to utilize in scenario 2. Mr. Feldman said he was looking at a one-time savings in the General Fund in FY 2013 of $4.3 million and being able to carry this forward. He said he wanted to apply the additional savings accrued in FY 2013 through 2023 to their OPEB payment; this would result in their having most of the OPEB funded by 2023.

Mr. Herbst explained that as with pensions, there was an annual required contribution to amortize the unfunded OPEB liability. The City had never made this annual contribution, so their unfunded OPEB liability had grown over the years. They had discussed setting up a trust that was invested like the pension fund. Mr. Herbst stated they needed to commit more funds, and he wished them to fund up to 50 – 60%. He remarked that this would help accomplish this in 15 years. Mr. Feldman pointed out that this would also stabilize their debt service premiums.

Mr. Saito asked how floating the bonds would affect the City's credit rating. Mr. Stahl said Moody's had indicated this would be ratings neutral.

Mr. Cross wanted to present this to the public in an easy to understand way. Mr. Herbst stated he would be putting an analysis together. He said he supported the POB and felt this was the best time to use it. Mr. Herbst stated he understood that pensioners wanted cost of living increases that they had not received in over a decade, but he wanted build safeguards into this “so that there is some punitive things that may happen if the Commission in the future decides to do that.” He said this came down to one thing: “Can we at least earn the rate on the bonds.” He had calculated that they could.

Mr. Herbst said he had been pushing the Commission to sit down with the two pension boards and their actuaries to discuss rates of return for the pensions; he felt 7.5% and 7.75% were overly optimistic. He was confident they could get 3.8% and he thought pension plans should be around 7%.

Mr. Cross asked if they had established bond covenants for the City. Mr. Herbst stated the City had a fairly low debt level, per capita.

Mr. Russo asked what percent of the City’s overall debt would cause their credit rating to be downgraded. Mr. Stahl felt this would need to be substantial. Mr. Feldman said the City had a AA rating now and he did not see the POBs contributing to a downgrade. Instead, he felt this would put them in a better financial position with the rating agencies because this became fixed debt and showed they were committed to addressing their OPEB debt.

Mr. Russo asked if the City planned any major infrastructure improvements in the next 10 – 20 years. Mr. Feldman replied that this would be done as general obligation voter debt.

Mr. Russo asked about the dedicated revenue streams and contingencies for the POB. Mr. Feldman said they were looking at a 10% Public Service Utilities Tax on electric and water bills; there was also a 5.22% Communication Service Tax. He was concerned that the State legislature would take away municipal revenue sharing so he wanted to pledge up to 15% now. Mr. Feldman said he was looking into whether they could pledge the State 175 and 185 pension monies toward this.

Mr. Ridgeway asked if this debt would have priority over future debt. Mr. Feldman said using the same pledged revenue sources, future debt would be subordinate to this debt.

Mr. Herbst felt people had a tendency to get caught up in year-to-year fluctuations, but they must consider the life of the bond.

Mr. Feldman informed Mr. Saito that three commissioners, including the Mayor, wanted to move forward at the 75% level. Commissioner Rodstrom was against it and Commissioner DuBose had stated he wanted to understand the risks before moving forward.

Mr. Ridgeway wanted to confirm that there was no priority to pay down this debt first if they had access to additional funds. Mr. Herbst stated this had come up in the past, and he always encouraged the City to pay down debt when they had excess funds because what they earned on invested cash was only 10 basis points.

Bill Goetz asked what the historic rate of return was on pension funds. Mr. Herbst stated he had calculated that in the last five years, the rate of return for Police and Fire had been only 1.59%; the 10-year rate had been 4.28% and the 20-year rate had been 7.38%.

3. Communication to/from the City Commission

None

For the Good of the City

No discussion.

Other discussion items

No discussion.

4. Adjournment

The meeting was adjourned at 5:34pm.

Documents:
POB presentation

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