

APPROVED
BUDGET ADVISORY BOARD MEETING
CITY OF FORT LAUDERDALE
100 NORTH ANDREWS AVENUE
8th FLOOR CONFERENCE ROOM
FORT LAUDERDALE, FLORIDA, 33301
JANUARY 16, 2013 – 6:00 P.M.

Board Member	Attendance	10/2012 through 9/2013	
		Cumulative Attendance Present	Absent
June Page, Chair	P	2	0
Drew Saito, Vice Chair	P	2	0
Brady Cobb	A	0	3
Nadine Hankerson	A	1	2
Jonathan Macy	A	0	1
Fred Nesbitt	P	2	0
Bryson Ridgway	P	2	0

Personnel Attending

Charmaine Eccles, Budget Department and Board Liaison
Douglas R. Wood, Director of Finance
Kirk Buffington, Deputy Director of Finance
Stanley Hawthorne, Assistant City Manager
John Herbst, City Auditor
Lee Feldman, City Manager
Emilie Smith, Budget Manager
Paul Vanden Berge, Department Budget Coordinator, Fire Rescue
Michael Dew, Police and Fire Pension Board Chair
Jeff Justinak, Fire Chief
Assistant Police Chief Tom Harrington
Lee Bucci, Chair General Employees Retirement Service Chair
Lisa Edmondson, Brigitte Chiappetta, Prototype Inc.

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

The meeting of the Budget Advisory Board was called to order at 6:03 p.m.

Chair Page presented Mark Snead and Tony Timiraos, former Board members, with plaques thanking them for their service.

2. Roll Call

Roll was called and it was determined a quorum was present.

3. Approval of Meeting Minutes

[This item was discussed out of order]

a. October 17, 2012

Motion made by Mr. Saito, seconded by Mr. Ridgway, to approve the minutes of the Board's October 17, 2012 meeting. In a voice vote, motion passed unanimously.

4. Presentation on Plan Portfolios – Mr. Dan Solin, Senior VP of Index Funds Advisors

Mr. Solin gave a presentation regarding index funds. He stated in 2012, only 10% of mutual funds outperformed their benchmarks and in nine of the past ten years, hedge funds had failed to beat their standard benchmarks. His experience representing people who had tried to recover money from failed investments had prompted him to begin dealing in index funds. Mr. Solin had compared 25 pension plans against a simple index portfolio and found that 24 of the 25 had underperformed compared to the index portfolio.

Mr. Solin distributed a presentation from Buckingham Asset Management that compared the performance of index funds and actively-managed funds and confirmed Mr. Solin's finding that managed funds overall provided worse returns than index funds. Mr. Solin explained that people tended to trivialize index funds, but in reality, their returns were in the top 5% of all professionally managed money. He informed the Board that the largest 401K plan in the Country, the federal government's 401 K Thrift Savings Plan, with over \$300 billion in assets, was invested solely in index funds. This plan was considered the best 401K plan in the country.

Mr. Solin had examined the City's Police and Fire Pension Plan from 2000 to 2011. The annualized return from the existing plan was 4.26%. The same assets invested in a "plain vanilla" index fund had an annualized return of 6.44% and there was a \$163 million difference in the portfolio value. Mr. Solin had also examined the City's General Employees Retirement System (GERS) and found the existing plan's annualized return

over 10 years to be 3.85%. In an index portfolio, the annualized return would have been 6.08%, with a difference of \$138 million.

Mr. Solin stated if the City was interested in this concept, he would return with members of his Institutional Department to make a proposal.

Mr. Solin stated the comparisons they had performed were comparable regarding risk. Mr. Ridgway had studied this topic in graduate school and agreed that it was generally accepted. Mr. Solin said capturing the global capital markets was the responsible way to invest; there was no basis for picking individual sectors and stocks. He informed the Board that his comparisons had been based on all the data provided by the City, going back as far as this data provided.

Regarding fees, Mr. Solin indicated that typically, active fund managers charged significantly more than index fund managers. He said the difference was that an index portfolio was certain to capture market returns, with actively-managed funds, some would capture market returns and some would not.

Mr. Bucci said Mr. Solin's data gave the impression that the GERS had not been doing as good a job as they could. He reported the GERS portfolio had returned 21.4% exclusive of the real estate investments for fiscal year 2012; this was in the top six percentile for all public funds nationwide. For 23 quarters, they had exceeded the benchmarks more than half the time. Mr. Solin said he did not mean to imply that people like Mr. Bucci and other fiduciaries were not living up to their responsibilities. Mr. Solin had examined 12 years of data, not just one. He said the problem was that past performance was not predictive and the methodology for choosing funds was not subject to peer review.

Mr. Saito asked about benchmarks for mutual funds, and Mr. Solin agreed that the appropriate benchmarks were not always used; if the appropriate benchmarks were used, the funds would prove to be underperforming.

Mr. Solin said people wanted to believe that someone was capable of providing them with superior returns without taking unacceptable risks. If he were a fiduciary, he would not be comfortable investing in things for which he did not understand the selection methodology.

Mr. Dew noted that of the 17 individual index funds Mr. Solin had compared, only three had matched the benchmark. Mr. Solin explained that the concept of indexing, done correctly, was to create a portfolio weighted toward "small in value" and measure the

returns. Over a period of time, some funds would outperform others, but in the aggregate, the most important concern was overall return.

Mr. Nesbitt pointed out that there was significant variation in the performance comparisons. Mr. Solin reported they used the CRSP indexes, which were more flexible than and S&P 500 index. He agreed to draft an analysis showing the specific indexes the funds tracked and to explain the disparity between indexes. Mr. Solin stated he would also bring to a future meeting the people who tracked the indexes to explain how this was done.

An audience member said he had spoken with professors from the University of Chicago and he felt they would agree that for an individual, investing in index funds made sense because costs were lower. But in a portfolio such as the City's, the difference in fees would make up for a large portion of the difference in performance. Mr. Solin said in trying to make a distinction between how individuals and pension plans invested, the premise, which was wrong, was very difficult to explain. The premise was that there were "people out there" who could pick stocks that would outperform over the long term. No one could demonstrate, whether they were picking stocks for individuals or for institutions, what permitted them to "look into the future."

Mr. Solin said Standard & Poor had done a study comparing actively-managed funds and index funds in bear markets, when active managers claimed they outperformed, and found "no support for active management outperforming."

An audience member felt the difference in performance, specifically over the time period -- 2000 through 2006 -- could be attributed as much to asset allocation as performance. The period from 2007 until 2011 had been a very strong period for index returns, but the Police and Fire Pension Fund had outperformed over that time period. Mr. Solin referred to the comparisons and said in the past ten years, roughly two-thirds of all actively-managed funds underperformed. He remarked that the greatest minds in finance supported his ideas.

Mr. Dew read a statement on behalf of the Police and Firefighters Board of Trustees. The statement indicated the Police and Firefighters Pension Fund had monitors for their managers and brokers and they did not disagree with the value of index funds and in fact included these in their portfolio. He stated they were not averse to including index funds in the portfolio to enhance the returns, but the trustees did not agree that a plan of only index funds was prudent. They believed that active management could control risk and volatility, with added value over index funds over the long time horizon. Their due diligence had shown that active management performed better in declining markets. The pension fund trustees used a mix of active and passive funds, and worked with

their managers to negotiate lower management fees. Mr. Dew thanked Mr. Solin for his presentation, and said the trustees were always open to new ideas and proposals that could increase investment returns, lower costs and reduce risk and exposure to market downturns.

Mr. Bucci read a statement, indicating that this had been an excellent opportunity to learn about index funds. He said an important distinction between GERS and the Police and Fire Pension Fund was that GERS worked by the City's fiscal year and the Police and Fire Pension Fund worked by the calendar year and this could make a big difference when comparing the two. Mr. Bucci noted that the trustees took their responsibility seriously and they appreciated Mr. Solin's educational presentation.

5. Old Business

a. Police Headquarters Tour Recap

Mr. Ridgway had drafted a memo regarding the tour and distributed copies to Board members. He stated the condition of the facility was not the fault of the Police Department. He said it was important to draft a schedule of capital needs for all facilities and to develop a program for preventative maintenance. Mr. Ridgway thought renovation could fix many of the problems. He remarked that the current design was not collaborative and probably reduced the Police Department's effectiveness. Mr. Ridgway recommended performing an assessment of major capital Improvements and investigating a bond issue to fund them. He cautioned that waiting too long would cause systems to fail.

Mr. Saito said the starting point should be to assess the needs of the Police Department and suggested creating a focus group comprising members of the department, an architect and engineers. He did not want to jump to the conclusion that a new building was needed. The needs might be satisfied by renovation and retrofit and by acquiring additional, off-site facilities.

Mr. Nesbitt asked Chief Harrington if a 2005/2007 proposal to build a new headquarters had also considered retrofitting and other options. Chief Harrington did not believe this had included a retrofit option, but remarked that they had done a lot of retrofitting since the building was first constructed. He explained they did utilize offsite locations for personnel and storage. The communication center was slated to move, regardless of whether they utilized a regional solution or maintained the facility using City staff.

Chair Page wondered if the previous study on retrofitting the Police Administration building would be relevant today. Mr. Feldman indicated that the biggest factor was whether the program had changed and whether the number of people the building

served had changed. He pointed out that the study could simply be updated; it need not be performed from scratch.

Mr. Ridgway said there were some structural mechanical systems that would fail in the next five years if they were not addressed and repairing the failure would be more expensive than performing maintenance. He reiterated that an assessment of immediate need should be performed.

Ms. Smith remarked that the Police had historically done a very good job of identifying their needs. The issue was that the needs were competing with many other needs in the City. Mr. Feldman explained that many counties and cities benefitted from an additional sales tax. If this were implemented in Broward County, the City could receive \$18 million per year, which would go a long way toward paying for their infrastructure needs. Mr. Feldman said they would also be permitted to use 15% of the additional sales tax revenue for economic development.

Ms. Smith stated they had budgeted in 2013 for a City-wide facility condition assessment. They needed to get a holistic viewpoint on needed repairs and then fund them. Mr. Nesbitt asked Mr. Saito to draft a possible recommendation to the Commission for the Board to discuss at their next meeting and he agreed.

Chief Harrington stated their goal was functionality and longevity. He pointed out that retrofits could be challenging while they were being conducted.

b. Financial Integrity Principles Update

Mr. Hawthorne explained that this concerned knowing what they wanted to be guided by. Staff would be making a dedicated effort to present a more substantive product to the Board in the next few months.

c. Fiscal Capacity Study Update

Mr. Hawthorne was looking forward to the fiscal capacity study, the third component of which was a financial trend monitoring system, which used a series of indicators that served as warning signs. He stated this update was significant and substantive and they could not afford for it to be "put on the shelf."

6. New Business

a. FY 2014 Budget Planning/Calendar/Role

Mr. Hawthorne said three expectations had come out of the last budget cycle: moving to an earlier timetable; better integration of stakeholders, including the Board, the Commission and staff and better integration with the newly introduced strategic plan. He distributed and explained a map and narrative of the strategic planning and budget

process to Board members to be discussed in February. He anticipated a preliminary strategic plan in April that would include the community's vision of 2035.

Mr. Hawthorne said they were ready to implement the Revenue Conferencing Committee, comprising one staff member from the Finance Department, one from the Budget Office, as well as one representative from the Budget advisory Board and one from the Audit Advisory Board. This Committee would affirm for the Budget Advisory Board and the City Commission that they were comfortable with the financial forecast. Mr. Hawthorne also hoped to introduce budget workshops between the City Commission and City departments.

Chair Page agreed to serve on the Conferencing Committee as the Board's representative.

b. Fire Assessment Fee – Alternative Method Presentation by GSG
[This item was discussed out of order]

Camille Thorpe, from Government Services Group, gave a presentation on an alternative Fire Protection Capacity Methodology, a copy of which is included with these minutes for the public record.

Chair Page asked which method would bring the City the most money. Ms. Thorpe stated neither was; this was just another way to split the costs. Mr. Feldman asked if maintaining the flat \$135 residential fee and basing other rates on the enhanced model would bring the City more money. Ms. Thorpe said there must be break points, but she felt this could generate some additional funds. She said she could not determine a way to get the City more money, except to go to the maximum fee of \$243.

Ms. Thorpe said another way to use the enhanced methodology would be to get rid of categories, split the budget up first and create fire protection units developed by hazard class, not assigned to a category. Ms. Thorpe indicated that the enhanced method was a small step away from how the City was currently designing the fees. Ms. Thorpe clarified for Mr. Feldman that the current system of using historical demand and fire protection units [300 gallons of water per minute] did not mean the City was assessing a cost for for the water; this was a proxy.

Ms. Thorpe had a report on the traditional method in draft form and would create another report based on the enhanced methodology if the City wished.

Chair Page indicated she was not comfortable shifting the costs toward residential properties and giving other sectors a break. Chief Justinak said they wanted to supply

the Board with both methodologies so they could provide some direction. He pointed out that capturing more dollars was a policy decision. Chief Justinak could not say which methodology would better increase revenues. Mr. Feldman recalled that last year, when they had discussed increasing the assessment by \$18, it had been noted that this would have more of an impact on smaller homes. He felt the enhanced methodology helped to address this discrepancy because it recognized that a larger structure would require more water to extinguish a fire. The real issue was that the Commission had a goal of full cost recovery, but both methodologies only returned a bit over 50%. Mr. Feldman wanted the Commission to address the Fire Assessment Fee and the tax rate prior to budget discussions.

Chair Page questioned whether the Commission really wanted to protect smaller homes from an additional burden, or if this was a just an excuse to not increase any fee or tax. Mr. Hawthorne said this was a political question, and it was pervasive across the country. Mr. Feldman commented that staff had gotten the Commission to recognize that costs for water and sewer service was increasing, and that they had goals for debt service and reserves. In response, the Commission had approved an increase of 5% per year by ordinance, with a safety valve preventing the City from accumulating too much cash. The Commission had not committed to a similar plan for fire service. He felt the Board could ask the Commission to consider an incremental increase in the Fire Assessment Fee of \$5 to \$10 per year, or to incrementally increase the cost recovery to 100% over a period of time. Or the Board might choose to recommend no increase in the Fire Assessment.

Mr. Nesbitt felt the enhanced methodology made the Fire Assessment more progressive and made more sense, but it seemed that commercial properties would get a reduction. Mr. Ridgway said reducing the Fire Assessment would increase the cash flow on commercial property and increase real estate taxes on them.

Mr. Saito referred to the credit for which commercial properties might qualify which could total 40% and asked if this had been factored into the enhanced methodology. Ms. Thorpe explained this had not been factored in, but this would probably add \$1 to \$2 to everyone's rate. She added that this would be considered in a full-blown study. Mr. Vanden Berge felt that the credits would drive up costs on residential buildings that typically did not have features such as sprinklers that would qualify them for the credits.

Mr. Feldman disagreed that reducing Fire Assessment Fees for commercial properties would necessarily increase their real estate taxes because this assumed the Property Appraiser would perform a per property analysis versus a market study. Mr. Ridgway agreed the Property Appraiser would not do that, but the Property Appraiser would use

the new assessed value after a sale. Mr. Saito stated this would be a tough sell because real estate values were subject to many other market forces.

Mr. Ridgway said the question was who the costs should be allocated to and this could be based on a determination of who used the services, or on a philosophical view that certain groups should be subsidized by other groups. The other component was the City's need to raise more money, in which case they could decide to simply raise the fee.

Ms. Thorpe indicated that Mr. Feldman had encouraged her to create a combination methodology, and she would continue to look for ways to get to the "happy medium" that Mr. Feldman desired, which incorporated creating tiers for single-family dwellings.

7. Quarterly Joint Budget Workshop

- a. Discuss Options for New Date: February 2013

Chair Page asked staff to schedule the joint workshop after the Board's February meeting.

After discussion, the Board agreed on February 27 or February 25 for the joint workshop.

- b. Set Agenda

No discussion.

8. Reconstitute the Budget Advisory Board by Ordinance

No discussion.

9. FY 2014 Calendar/Workflow Map

No discussion.

10. Communication to/from the City Commission

None.

Other Board Discussion and Updates

Selection of Vice Chair

[This item was discussed earlier]

Mr. Nesbitt nominated Mr. Saito for Vice Chair, seconded by Mr. Ridgway. In a voice vote, motion passed unanimously.

Mr. Saito requested information on the impact on the budget of A1A “falling into the ocean.” Mr. Hawthorne informed the Board that the State District DOT Secretary had attended a meeting the previous month and had indicated that “funding isn’t an issue.” He agreed to bring a presentation on this topic to the Board.

Chair Page reported the Mayor had appointed Joe Dewey to the Board.

11. Adjournment

The meeting was adjourned at 9:25 pm.

Documents:

Comparison of index and actively-managed funds provided by Mr. Solin
Memo from Mr. Ridgway regarding the Board’s Police Headquarters facility tour
Map and narrative of the strategic planning and budget process from Mr. Hawthorne
Fire Assessment presentation from GSG

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