

**City of Coral Gables City Commission
Special Meeting – Pension Workshop
February 13, 2015
City Commission Chambers
405 Biltmore Way, Coral Gables, FL**

City Commission

Mayor Jim Cason

Vice Mayor William H. Kerdyk, Jr.

Commissioner Pat Keon

Commissioner Vince Lago

Commissioner Frank Quesada

City Staff

City Manager, Cathy Swanson-Rivenbark

City Attorney, Craig E. Leen

City Clerk, Walter J. Foeman

Public Speaker(s)

Jim Linn, Special Counsel, Lewis, Longman and Walter

Mike Tierney, Actuarial Concepts

Jay Glover, Public Financial Management Group

Mike Nadol, Public Financial Management Group

Pension Workshop [Start: 9:19:25 a.m.]

Craig Leen: Mr. Mayor?

Mayor Cason: Yes.

City Attorney Leen: I'll continue at this point. Good morning, everyone. As a parliamentarian, I spoke with the Mayor today, and we just wanted to make a few statements regarding the proceedings today. This is what's called a Sunshine Meeting. The Sunshine Meeting, the way it's been noticed, is to discuss the retirement plan; in particular, this particular workshop today is about unfunded liability. I see a number of members from the Pension Board. I see the Pension

Board attorney. I see Mr. Cohen, who's the attorney in the COLA (Cost of Living Allowance) case. I just wanted to make one statement regarding the COLA. That is something that the Commission will be considering, and it's also part of a mediation that's coming up. But because there's active litigation related to the COLA and because there is going to be a mediation and an executive session at some point following this meeting, that will not be discussed today, on the advice of counsel, being myself. The Mayor's informed me that this meeting will go to 11 a.m. There's not a public comment section in the meeting today. The purpose of that is because we have a number of experts here and a limited time; so the experts will be providing information regarding the unfunded liability, and the Commission will be able to ask some questions. With that, I would turn it over to the Mayor and the City Manager.

Mayor Cason: City Manager.

City Manager Swanson-Rivenbark: Good morning, Mayor and members of the Commission and members of the public that have come today. This is the first of many meetings. You all have made it very clear that you wanted to look at the unfunded liability. You wanted to understand what the causes are for it and, long-term, what the prognosis is, and what you, as elected officials, can do regarding it. You also acknowledged that the unfunded liability really emerged before you were in office. It wasn't decisions made by this group; it was decisions of the past, but you still want to be responsible in dealing with it and looking at what we, as a city, can do to better manage the unfunded liability. This, as I mentioned, is going to be one of many workshops. After this, you might suggest that you want to hear more about this tool or you want to hear more about what other cities are doing, but today it is to discuss where we are and the direction that we're going. I think you'll be pleased with the direction that we're going. And I'm going to ask Diana to identify our experts. Rather than us answer your questions, we have asked our experts, our financial advisors, to come forward, to have that conversation with you. And it is, as you said, a public meeting where the public is welcomed to observe but not participate. There will be ample public hearings for participation and continued dialogue, but today is to focus on the unfunded between you and our experts. Thank you.

Finance Director Gomez: Good morning. Today we have with us several individuals who are involved in putting together the presentation. You do have the presentation in front of you, and it's going to be put on the screen shortly. With us today we have Jim Linn from Lewis, Longman and Walker. He is pension council, outside council for the City for pension purposes; Mike Tierney from Actuarial Concepts. He's the City's actuary. We have Jay Glover from the PMF (Public Financial Management) Group. He's our financial advisor, and you've seen him before with sunshine state loans that we've done in bonds and we've issued in the past. Mike Nadol with PFM Group as well. He's here to talk to us on certain topics in the slide; and Donovan McGinley, our external auditor, with McGladrey, LLP (Limited Liability Partnership). So we're going to start the presentation with Jim Linn. And if you have any questions throughout, you know, feel free to call on any one of us.

Ms. Swanson-Rivenbark: But there are copies for those that want to follow the PowerPoint, and the copies are with the Clerk.

Commissioner Keon: Can I ask one question before we go forward? Is there any reason we didn't include the Board's actuary? We only have outside?

City Manager Swanson-Rivenbark: We certainly can in future meetings.

Commissioner Keon: Okay.

City Manager Swanson-Rivenbark: We brought the advisors to the Commission.

Commissioner Keon: OK.

City Manager Swanson-Rivenbark: It wasn't an intent to exclude.

Commissioner Keon: Okay.

City Manager Swanson-Rivenbark: But the decision was...

Commissioner Keon: Maybe going forward, we could include those...

City Manager Swanson-Rivenbark: Absolutely.

Commissioner Keon: ...people too.

City Manager Swanson-Rivenbark: Absolutely.

Commissioner Keon: Thank you.

Jim Linn: Good morning.

Mayor Cason: Good morning.

Mr. Linn: Mayor, Commissioners. I'm Jim Linn, City's pension counsel. Mike Tierney is the City's actuary. We're going to spend a few minutes with you on our segment of the presentation, going over just some basic information about the City's retirement plan and focusing on the unfunded liabilities. And I do want to point out that members of the retirement board of trustees are here with their attorney, Alan Greenfield, and also actuary Pete Strong, and before I begin, I wanted to also note that there's a packet of additional information that we're really not going to be talking about, but we provided to you, that contains some terms and acronyms that might make some of the phrases easier to understand, and also contains some slides on what other Florida cities have done in pension reform. So, as you know, the City's retirement plan is a defined benefit plan where the benefits are based on a formula and the benefits are guaranteed by the City under State Law, and that's a big part of what underlies the current situation with respect to the plan. So the basic formula in a defined benefit plan is a multiplier, which is some kind of percentage of average final compensation multiplied by years of service. And if we look at slide four, this is the, general summary of the current formulas for the general bargaining unit confidential and elected employees, police and fire; and as you can see, it's a little bit involved. For general, it was a 3 percent multiplier for service through September 30 of 2010; 2.25 percent

for service after that time; for police, based on agreement reached in 2012, 3 percent for the first 10 years of service and 2.5 percent thereafter; and for firefighters hired before October 1 of '13, it's 3 percent for all years of service; hired after that date, it's 3 percent for the first 10 years; 2.5 percent thereafter. And the reason for this rather complicated breakdown is, again, it shows that these steps...it used to be 3 percent per year for all City employees; and in the past four years, the City has taken steps with respect to all the employee groups to scale back the future benefits, and so this is the formula that is now in place in your retirement plan. I'm just going to talk briefly about premium taxes. This is an additional source of revenue provided by the State under Chapters 175 and 185 Florida Statutes. It's based on the State Excise Tax on property and casualty insurance premiums that cover property within the City. And so, basically, what that means is for the Chapter 175 monies, it's based on property insurance, and for the 185 premium tax funds, it's based on basically automobile insurance. The way this works is the City has to comply with provisions 175, 185 in order to be eligible to get the money, but the good news is that because of the long-ago date that the City instituted its retirement plan, Coral Gables is one of three cities in the state that are deemed to comply.

Commissioner Keon: Could you explain what that means?

Mr. Linn: What that means is, basically, is that the City has much greater flexibility in terms of being eligible for the premium tax dollars. You don't have to satisfy every requirement in the law because you basically are grandfathered in. So you can make changes to your plan that may not be in compliance with the statutes and still be eligible for the premium taxes.

Commissioner Keon: OK.

Mr. Linn: And a good example would be the recent changes that you made to the composition of your Pension Board. Under the statute, there's very strict requirements for the composition of the board, but because the City of Coral Gables is deemed to comply, you were able to change the composition of the board without losing the premium tax money.

Commissioner Keon: So the City receives money.

Mr. Linn: Yes, so, if you go to slide 6.

Commissioner Keon: OK.

Mr. Linn: The City received a total of almost 1.5 million last year in this premium tax money; and of that amount, little less than \$145,000 went to funding the retirement plan. The rest of the money, 90 percent of the balance of the money, about \$1.34 million, went to separate what are called "share plans" for police officers and firefighters. And these are basically 401k-type accounts that are set up in a separate plan to provide benefits for retired police officers and firefighters, in addition to the benefits provided through the retirement.

Commissioner Keon: So does this money accrue to them during the length of their...?

Mr. Linn: Each year the money is divided up, there's a formula, and it goes into individual accounts in the share plans for each participating member.

Commissioner Keon: Okay. So each officer, each firefighter has one of these plans and there's an annual contribution for these dollars into each person's account throughout the period of time that they are employed.

Mr. Linn: Right.

Commissioner Keon: And once they retire, they begin to collect this benefit in addition. So is this part of what...and this is separate and apart from the defined benefit plan that the City does?

Mr. Linn: Yes. It's not anything to do with the unfunded liability of the retirement plan.

Commissioner Keon: No, I understand that. But it is an additional benefit that they all receive.

Mr. Linn: Correct.

Commissioner Keon: Okay.

Mr. Linn: And you know, the last point on this slide, you know, is “Well, is it possible that, that money that's now going into this share plan” -- “these share plans for police officers and firefighters, could that money be reallocated to, for example, help in paying down the unfunded liability?” And the answer to that is “yes,” but under the State rules, that would require the agreement of the police and fire unions.

Commissioner Keon: What is that benefit, what would that benefit be upon retirement for the vast majority, for somebody that has worked for 25 or 30 years?

Mr. Linn: You know, it varies. They do get earnings, investment earnings on those amounts. It could be couple hundred thousand dollars or more, depending on how long the individual had been participating.

Commissioner Keon: OK.

Mayor Cason: Is information available on how much money's in the pot if you put all of them together?

Mr. Linn: The information is available from the separate boards, from their administrators, which are separate from the retirement plan administrations, and we could get that information. I have not gotten it in a couple of years.

Mayor Cason: Okay.

Mr. Linn: So turning to slide 7, this is really the universe of pension reform options that other cities in Florida and Coral Gables have already done. One option is to join the Florida Retirement System; one option is to set up a defined contribution plan to replace the current defined benefit plan; reduce benefits for new hires; reduce benefits for all employees; set up

some kind of a hybrid plan which has features of defined contribution and defined benefit; and/or increase employee contributions or implement some type of cost sharing, and I think these things are familiar to you because, in fact, looking at slide 8, you, the City, has already implemented a number of these pension reform measures.

Mayor Cason: Let me ask you a question. On page 7, isn't there another one that could go in there, which would be voluntarily increase the City's contribution to fund down more than the --?

Mr. Linn: Yeah, and this is where the Mr. Tierney's going to get into that. We're going to spend a lot of time talking about that.

Mayor Cason: Okay.

Mr. Linn: This is really what you can do on the benefit side to reduce the City's future contributions.

Mayor Cason: Got it. OK.

Mr. Linn: So in slide 8, it just is a very basic high-level summary of what the City of Coral Gables has already done in terms of pension reform. With the general employees in 2010, the City implemented a benefit freeze, and benefit reductions for current as well as future employees. And when I say "current", I think you know this, that under State law, you can't reduce the benefits that current employees have already earned. But this is talking about reducing the future benefits for current employees, as well as reducing benefits for future employees. And also as part of those 2010 general employee changes, you instituted cost sharing in terms of the employees' contribution being tied to increases in the City contribution. With respect to police, again, the City implement benefit reductions for current and former employees and also increased employee contributions and likewise for firefighters. In 2013, the City implemented benefit reductions for current and future employees and increased employee contributions.

Vice Mayor Kerdyk: Do you have a monetary of how much that's saving us per year by these changes? Because I think I remember like \$7 million. Is that correct?

Mr. Linn: We have that information, but I don't have it readily available.

Vice Mayor Kerdyk: Yeah.

Mr. Linn: We'll get it to you.

Vice Mayor Kerdyk: Okay, that's fine.

Mr. Linn: This is planned membership information, just to give you a basic summary of the membership of the plan as of the most recent valuation. And by the way, all of the source data that you're seeing here in these numbers are coming out of the most recent actuarial valuation, which was as of October 1, 2013. So active members, there's a total of 565 active. Those are the people who are employed and earning benefits right now. Vested/terminated is 60; those are people who left after vesting in the plan, but with an entitlement to receive a benefit at a future date when they reach normal retirement. And then retirees and beneficiaries, 860, but this includes current members who are in the DROP (Deferred Retirement Option Plan), so you have a total of 1,485 members and really the take home from this information is that 60 percent of the current participants are inactive as opposed to the active, so that is going to come into play as we start talking about the unfunded liability. Slide 10 is just a synopsis of the current and last year's and this year's contribution requirements. Last year the City contributed 25.5 million to the retirement plan, which was about 65.5 percent of payroll; this year it came down a little bit to 23.3 million; 62.8 percent of payroll. Yes.

Commissioner Lago: Thank you, by the way. I appreciate it. One quick question in reference to this slide. Can you give us a little bit of an idea why we have about a \$2 million offset in regards to the City's contribution; our required contribution for this year? Is it just earnings? Is it based on earnings or is it...?

Mr. Linn: No. Actually, I'm going to defer to Mr. Tierney on that, because it's an actuarial answer.

Michael Tierney: Why is there a decrease in last year's contribution to this year's?

Commissioner Lago: Yes, and I have a feeling, idea. I mean, the Vice Mayor just quickly mentioned this moving aspect of it, but I just wanted to make sure that everybody kind of got an idea also why we're seeing about \$2 million reduction in our required contribution for this year.

Mr. Tierney: Well, there's a lot of factors that go into it, but the short version is that favorable returns and the phase-out of the prior losses from 2008 tend to make the calculations more favorable, but there's all sorts of other factors. I'm sure that the plan actuary could share with you more specifically that, because he's the one that did the work. He's here, so if you wanted to ask him that, but generally, it's because of the favorable experience.

Commissioner Lago: OK. Would you say that we're trending in a positive manner, like you foresee the same potential, I wouldn't say \$2 million year over year, but a reduction in regards to what the City has contributed on a yearly basis?

Mr. Tierney: Well, we have a chart that shows that projection of the contribution, so maybe that's a better time to look at it.

Commissioner Lago: Perfect.

Mr. Tierney: It'll be in a few minutes.

Commissioner Lago: Thank you, sir.

Commissioner Keon: Could I ask a question also? Is the amount that we're paying, is this is the contribution to cover benefits annually?-or is this the contribution plus what we're using to attempt to pay down the unfunded liability?

Commissioner Lago: Is that both?

Commissioner Keon: Is this both?

Commissioner Lago: It should be, right?

Mr. Tierney: The answer is that under state law, you're required to be an actuarial balance, which means that your financing plan, the contributions you pay must, in the future, get to 100 percent funded. That's what the law requires you to do.

Commissioner Keon: Right.

Mr. Tierney: So whatever you're paying will get you to 100 percent.

Commissioner Keon: When?

Mr. Tierney: So no matter what you are now, and we'll go into this because you don't have a cash flow issue. You'll get there eventually with the bill that they're currently sending you, so you need to be understanding; there's nothing more you have to do, other than to pay the bill you get, so it's already baked in all those numbers. The issue is the risk associated with all that and maybe the experience in the future is unfavorable. Maybe there are future actuarial losses. It's a dynamic situation, but assuming everything is now matching the assumptions you're going to get 100 percent.

Commissioner Lago: Maybe the markets won't treat us as favorably as they treated us over the last four years, and that's a big concern.

Mr. Tierney: Well, that's why it goes like this.

Commissioner Keon: I know, but I wanted to know what is the cost to fund annual benefits -- the current employee annual benefit program?

Mr. Linn: Well, that's coming right up.

Commissioner Keon: Oh, okay. I'm fine.

Mr. Tierney: We'll get there, but the short version is that 90 percent of what you're paying is for the unfunded right now and 10 percent is for your ongoing costs. But the calculations are maybe not what you think. It's actuarially spread as opposed to each year's earned benefit you pay for it. That's not the way it works, but symbolically, we can talk about it that way.

Commissioner Keon: Okay. Thank you.

Mr. Linn: And the additional point on this slide is that for the year ending September 30 of '13, market return was very good. We've had a couple of good years of market return. But in that year, the plan actually had an actuarial loss of 1.6 million, and of course, there's reasons why that happens, but you know, the bottom line is that that investment return alone doesn't necessarily mean that you're going to have a positive overall actuarial experience. This is the basics of pension funding law on slide 11. We've kind of covered this already. You got to fund the plan on a sound actuarial basis, which basically means we got to pay the required contribution, as this gentleman, the plan actuary, calculates it. The plan sponsor is ultimately responsible for paying what we were just talking about, the normal costs. The costs that currently earned benefits, plus amortizing the unfunded, and the plan sponsor of the City bears the risk of pension fund investment losses, and this has been one area of concern. Over the last few years, this shows the market and actuarial investment performance for the last five years, last ten years, and since 1997; and of course, it's the right-hand column that actuarial performance, that is, the one that goes into determining the funding requirements for the plan.

Mr. Tierney: That's the smooth part that you were talking about.

Mr. Linn. And so right now the assumed rate of return is seven and three quarters percent, and you can see that the actuarial return in the plan has been significantly below that for some time.

Mr. Tierney: You need to be aware that the (UNINTELLIGIBLE) percent is something that really needs to be looked at. The State has put a lot of downright pressure on assumptions for many plans, many actuaries. I'd say a majority now have adjusted their assumptions downward. The State recently went from seven three quarters to 7.65 percent; probably on the way to seven and a half. So there's a lot of movement. If you're under 50 percent funded, that the State has written a letter saying that you need to do something now or we're going to withhold premium taxes, so there's a lot of pressure of that. And of course, what that means is, you know, if you were to lower your investment return, I'm not sure the calculation, but to somewhere in the lower 7s, that you'd be below 50 percent. So the irony is that if you strengthen your assumptions so that you could pay more, you know, they would say, "Well, you're under 50 percent, so now you have to do something right now." So it's sort of crazy, but the point is that this is something you need to be aware. But all these numbers are based on this discount rate, and it's probably going to be looked at if these rates are going to be smoothed downward, and therefore, the liabilities that you're looking at are going to be probably increased temporarily. And this stealing part of my whatever, but understand that the cost is still the cost. These assumptions are only intelligent guesses about what we need to pay, so it doesn't change anything, but it does change the current bill.

Mr. Linn: And slide 13, you know, why the unfunded liability has grown? Over the past few years, the City pension plan has had actuarial losses in 13 of the 14 years; and you know, again, those actuarial losses have occurred even in years of good investment performance. And what that basically means is that the assumptions haven't accurately reflected the experience. And now on slide 14, I'm going to turn it over the Mr. Tierney.

Commissioner Lago: It's a pretty significant number. We just went over right now concerning that over the last 13 years, we've basically not met our goal of what you just mentioned right now of 7.75. It kind of proves your point.

Mr. Tierney: Well, it's not my point. It's the point of a lot of...

Commissioner Lago: I know, it's the State's recommendation, but I mean, do you see yourself...

Mr. Tierney:...other actuaries.

Commissioner Lago: I was going to ask you another question before we move on to the last slide. In reference to the market breakdown and our 7.75, what do you see other municipalities and counties doing in reference to the assumed rate of return? Do you see them also lowering the number? Are they significantly lower than 7.75?

Mr. Tierney: Yes. There's a definite trend. Many are phasing down over a five-year period. And I got one right now that is going from seven three quarters, seven and a half over a five-year period at five basis points a year, trying to nibble at lowering it but not take the quarter percent jump all at once. They are other people that are trying to get to seven and a quarter of seven. It's only because they're trying to be, well, not sure what "conservative" means in this environment. Some people believe it's 6 percent is the appropriate rate, so you know, it's all relative but there's a definite trend; everybody's looking at it.

Commissioner Lago: Would you consider our percentage to be on the higher end or the median...?

Mr. Tierney: Right now it's mainstream.

Commissioner Lago: Mainstream.

Mr. Tierney: But people are headed down below that. The reason why this is seven and three quarters, a lot of clients are at seven and three quarters because the State was. Now that the State's changed, well, we're all looking at it now to try to figure out a way to gradually phase it down a little bit more. Not just happening.

Commissioner Keon: Is that a decision that the Pension Board makes?

Mr. Tierney: Yes.

Commissioner Keon: Who makes that decision?

Mr. Tierney: Yes. The Pension Board makes those decisions.

Vice Mayor Kerdyk: There was a time it was much higher than seven three quarters here, much higher, and we've moved it down to that rate.

Mr. Tierney: Well, that's correct. In theory, maybe not in theory, in retrospect, if you look back, it's like, "Wow, we shouldn't have assumed that."

Vice Mayor Kerdyk: Yeah.

Mr. Tierney: But that's easy to say now.

Vice Mayor Kerdyk: Yeah.

Mr. Tierney: But back then, you know, in '99 everybody --

Commissioner Lago: Nine percent.

Mr. Tierney: Yes, that was a "no brainer."

Vice Mayor Kerdyk: Yeah.

Commissioner Quesada: I know we've discussed this in the past, but what is the financial impact by reducing that assumed rate, the immediate impact? I know we've discussed it in previous meetings.

Commissioner Keon: If you moved it to seven-and-a-half.

Mr. Tierney: Well, that's okay. We were going to try to cover that, but we'll do it now. Every time you make your "assumptions," I'll call them more conservative. The end of the day, (UNINTELLIGIBLE) word, that increases your actuarial liabilities, therefore increases your unfunded actuarial liabilities, therefore increases your contribution requirements. And of course, you know, if you do five basis points, not very much. If you do 50 basis points.

Commissioner Lago: No. I knew that. We've discussed it. We've discussed it at ad nauseam. We really have. I forget. If we were to go down half a percent, what's the impact to us?

Mr. Tierney: Well, we haven't looked at that to present it to you today.

Commissioner Quesada: OK.

Mr. Tierney: We're not in charge of the assumptions. My purpose is to tell you that these are going to be looked at, and we have to be prepared to understand that we may get a higher bill because someone's adjusting the interest rate down, and it's probably appropriate to do. You know, I've done this for other cities, and you know, we're talking maybe 10 percent, maybe 5 percent, depending upon what the degree of the adjustments is.

Commissioner Quesada: OK.

Mr. Tierney: Increase in contributions.

Commissioner Quesada: Well, I guess for the next workshop that we have, if we can just to give us a better idea of, moving forward, of what that impact would be.

Mr. Tierney: Well, there's information that's going to be readily available, if not already. I think it's going to be in the GASB (Governmental Accounting Standards Board) 67 information that plans provide as of 9/30/14. Yeah, right.

Commissioner Quesada: Looks like you're looking further ahead in the Power Point.

Mr. Tierney: No. He was actually referring to the GASB-67 information that I just referenced. And the point is that the GASB-67 requirements require to have you tell what it would be if the interest rates, this is your unfunded liability now, what that unfunded liability would change, not the contributions but the unfunded, if you lower your discount rate by 100 basis points, or raised it by, I think it's at least by 100 basis points. The State is requiring 200 basis points decrease, so all that...

Mr. Linn: As a reporting requirement.

Mr. Tierney: As a reporting requirement.

Mr. Linn: Not as a funding requirement.

Mr. Tierney: So you're going to get this information officially -- GASB (UNINTELLIGIBLE) publish information?

Mr. Tierney: So this information is already available, the unfunded version. Do you have the contributions? So this is unfunded scored up as of 9/30/14. This is comparable, I believe, to the 243 million as (UNINTELLIGIBLE). Would that be right? Okay. So the 207 goes to 257 million; 207 million. That's the change for 100 basis point decrease.

Commissioner Quesada: Okay.

Mr. Tierney: And so you can interpolate.

Commissioner Quesada: What you're looking at, do we have a copy of that?

Mr. Tierney: It's GASB-67. That's a plan.

Commissioner Quesada: I was looking at ours, we have GASB-68 in our, I guess we're going to be coming....

Mr. Tierney: (UNINTELLIGIBLE) 9/30/15. That will be coming up at the end of this year. This is a plan disclosure not a City disclosure effective 9/30/14. So (UNINTELLIGIBLE) plan (UNINTELLIGIBLE), but I don't --

Mr. Linn: We could get copies of this report.

Commissioner Quesada: I guess my request is to the Manager in a future workshop, if we can just get into that a little bit more.

City Manager Swanson-Rivenbark: Certainly.

Mayor Cason: Why don't we let you get through your presentation and I think, then a lot of the questions may be answered.

Mr. Linn: The point is that, yes, we agreed, and we're trying to give you a warning now that these things should be looked at.

Commissioner Quesada: Yeah. I appreciate that.

Commissioner Keon: At some point, will you discuss how that gets looked it, who makes the decision?

Mr. Tierney: Pension Board.

Commissioner Keon: OK. At their own discretion? Is there a direction given to them for that or that's at the discretion of the retirement board?

Mr. Tierney: It's at the discretion of the retirement board consistent with their advisors.

Commissioner Keon: OK.

Mr. Tierney: It doesn't mean they wouldn't welcome your input, which I'm being presumptuous there, but I assume that...

Commissioner Keon: Okay.

City Attorney Leen: If I can add something? They do have a fiduciary responsibility, so it's not unlimited discretion.

Commissioner Keon: Thank you.

Mayor Cason: Continue. Thank you.

Mr. Tierney: So all this talk about unfunded, you know, what is the unfunded liability? This may be obvious, but we'll get into something a little more actuarial in a minute. The unfunded actuarial accrued liability is that portion of the actuarial liability that's not matched by current assets, straightforward. Here are the numbers as of a year ago. You got 532 million of actuarial liabilities; of which, the actuarial assets offset 289 for an unfunded of 243 million. That's out of the 2013 actuarial report. Now, the '14 report doesn't exist yet. They just finished an experienced study; they got approval. They're going to be doing that in the next month. So we'll have updated numbers in a month or five weeks. So just to point out that these actuarial assets sort of like, I think, what you talked about, "the smoothing." A year ago, there was 22 million that hadn't been plugged in yet to the calculation, which means that even if you made a little less, the assumption part of the 22 million would be used to help you...

Commissioner Lago: To offset that.

Mr. Tierney: To offset that, yes.

Commissioner Lago: Let me ask you a quick question. I don't expect you to have the exact defined amount, but when you look at our funded versus our unfunded, how do we figure in the whole plan in regards to the State? What are we ranked, let's say?

Mr. Tierney: What are we ranked?

Commissioner Lago: Yeah. What would you say?

Mr. Tierney: Well, the rankings are done by people that I don't actually agree with their methodology.

Commissioner Lago: But when you look up there right now and you see...

Mr. Tierney: (UNINTELLIGIBLE) question to ask me.

Commissioner Lago: Well, I mean, I understand that it may be a little unfair, but I got to ask the question anyways, because I want to be able to put into context, so that when someone ask a question saying when you put our funded versus our unfunded, I need to know that number, because people constantly ask me and they have different opinions on the (UNINTELLIGIBLE).

Mr. Tierney: Well, that's right. And we're trying to redirect this concept about funded status, and I'll answer your question. It's 54 percent as of a year ago.

Commissioner Lago: Okay.

Mr. Tierney: Okay. But you have to understand that number. Just remember what we said 10 minutes ago, is that as long as you make those contributions, you will be 100 percent funded.

Commissioner Lago: In 30 years.

Mr. Tierney: Thirty years. Well yes, 30 years, but it could be 99 in 25 years. I mean, part of that has to do with all the 47 amortization basis that you are paying off at different times and stuff like that. Have to be a little careful, but yeah, 30 years.

Commissioner Lago: No, but listen, I understand completely what you're saying, but when you go back and I apologize when we're talking about 30 years, when you go back to page 10, you have a 90 percent of 23.3 million as the unfunded; 10 percent is funded. If we were funded to a certain extent, let's say 85, 90 percent, we would have 90 percent or let's say 80 percent of the \$23 million in our pocket to be able to do different things, you know, for the City, and that's where my question comes about the...

Mr. Tierney: Well, sure.

Commissioner Lago:...where your answer was about 54 percent. In 30 years of paying 23.3 million or rough so, you know instead of having to pay that, if we were fully funded, we wouldn't have that issue.

Mr. Tierney: Well, that's true, but unfortunately, it's...

Commissioner Lago: It's not reality.

Mr. Tierney: Well, no, it is. All you have to do is to come up with 243 million and give it to the plan and now you can save 23 million a year. I mean, that's the problem.

Commissioner Lago: Like I prefaced my comment: it's not reality, unless you have the \$243 million you're going to hand out to me.

Mr. Tierney: Well, the idea is how do we get there. And if you want to get there quicker, that's probably why we're here today.

Commissioner Lago: Of course. I agree.

Mr. Tierney: OK. So that's a good intro. Anyway, so we talk about unfunded, but the real math is that in the actuarial approved liability. I am in slide 15 now, and this is, to me, a very important concept, crucial concept. This actuarial liability is a discounted present value of future annuity promises, okay? Discounted present value, it means that when you're looking at retiring liabilities, or any liability, it's not what you're going to pay, you know, on somebody's liabilities; the actual payment's going to be three-times what you're looking at, because what you're looking at is a 20-year discount of a future payment obligation. So just remember that discounted present value is what actual liability is, and that's a key concept in terms of understanding the risks and trying to look forward and understanding the impact of different interest assumptions, so that to me is the most important. You talk about unfunded, but you know, that kind of assets gets in the way of understanding the actuarial calculation. Okay, so this calculation that us actuaries do are estimates. It does not determine the cost. The cost is whatever those payments are, okay?-and whatever you assume; it's not going to change that cost. We don't know what it is, but all we're trying to do is establish a reasonable path so that it'll somehow be close, so we don't have to do a lot at the end in order to true it up to match those payments. Now, the nice part about a plan especially for cities, is that you always got this 30-year horizon, so you got plenty of time to adjust. You never get to the end. You're always somewhere in the middle where you've got all this money that we'll talk about in just a second. I want to get to two more slides, and then we can talk about that. We talked about strengthening assumptions. We already covered that. That's the bottom of page 15.

Mayor Cason: Can I ask you how many...? We're not just talking about the interest rate assumptions, but there's something like 30 different assumptions that go into this program.

Mr. Tierney: Well, that's true. And we'll show you the results, the contribution effect, projection results of changing the assumptions in about four slides.

Mayor Cason: OK.

Mr. Tierney: So you can see what the effect is. The bottom line is the assumptions, big picture, are pretty close, I think most of the things have been fixed. So, when you look at it perspective, it's not a lot there to be worried about in terms of are the assumptions wrong, other than the discount rate. That's the big ticket. That's the thing that can affect the cost the most. I mean, there's other annoying things, like mortality tables, but that's still minor relative to the bigger picture and things that can be adjusted over time. But interest shocks hit you pretty quick, so even on the smooth basis. Slide 16, this puts numbers on the actuarial approved liability. You've seen the 532 million. These are all from a year ago. And this is, to me, one of the most important things about understanding the unfunded and what we can do about it. All that 532 million, 422 are retiree actuarial liabilities, number of discounted present values, so we're going to maybe have to pay a billion rather than 422 million when we get around to having to make those payments. That's a discounted present value.

Commissioner Keon: The 422 million is?

Mr. Tierney: It's a discounted present value. It could be that you end up making a million of payments relative to those 422. I made it up, by the way. I didn't do the calculations, but it's significantly more than the discounted present value now of those future payments. So the point is like, you know, four-fifths is just retirees. Well, can't change their plan; can't change their promises, so the short version is we got to pay it, okay. I mean, that's a real short, there's nothing we can do about it. The active earned benefits are another hundred million. That means they've already earned that benefit, and we're not going to take that away either. That means that all but 11 million of these actuarial present values have already been earned, so whatever you want to muck with, you're only going to have the ability to muck with 11 million.

Mr. Linn: And when he says "muck with," he means, you know, the 11 million is the portion of this total liability that you could affect by reducing benefits, for example.

Mr. Tierney: So now we talked about actual liabilities. Now I'm just going to put it in the context of unfunded. This is page 17; the unfunded of 243 million. Again, you've seen the number. The retiree part of that 243 unfunded is 193; the active earnings is 145, so the active future accruals that are in this actuarial liability, that means that, you know, to the funding thing, it's not all earned. We actually project some of those future accruals as part of the funding spreading of the payments, okay, so that's why only 5 million of the unfunded is really attributable to future accruals of the current employees. So the short version is...

Mayor Cason: A lot of water under the bridge.

Mr. Tierney: That's very good. That's correct. Okay, so now we're getting to the slide you asked about 15 minutes ago. How can we reduce the unfunded? There's a million versions. You can increase your annual contributions. We'll show you a version of that. Diana Gomez, the Finance Director, came up with a pretty good version of it that we'll show you. You can do a one-time increase payment. You know, instead of putting increased money in over time, you can put it in more all at once, like a pension obligation. And those kinds of things will be discussed later on this morning. You can reduce the future earned benefits of the current actives. I think we've seen, in terms of the unfunded liability effect, that there's not much there in terms of addressing the unfunded.

Commissioner Keon: So that option of reducing future earned benefits of current active, that's this 11 million, so that's really a very tiny portion of what we're talking about.

Mr. Tierney: That's the point, is that if we're addressing the unfunded and how to reduce it, that's not an avenue that's going to do us a lot of good.

Commissioner Keon: OK.

Mr. Tierney: However, you know, the purpose of this is to put numbers to it, so you'll have an idea of what the impacts are and what you can do about it in terms of that.

Commissioner Keon: Yeah.

Mr. Tierney: Now, Jim mentioned, I think, a plan freeze. That's one of the things that other cities have done in adopting a defined contribution plan, for example. That's still addressing 5 million of unfunded and only 11 million if you stop the plan entirely and go to something else, you only are going to shave off 11 million on the unfunded liability, so it's just trying to put it in perspective. However, there is a second component and we'll get there in a second that there's a normal cost component that you can affect by reducing future accruals. We'll get there. Are the assets needed? We've sort of covered this. Are the assets needed to fund the unfunded liability? The answer is, I guess, in two slides, but the short answer is "no." We got plenty of money; we're not going to run out any time soon. We're required by statute to make ongoing payments, so we're not going to run out of money. We don't need it right now. We just need to make sure we have a plan so that things are fully funded sometime in the future in a systemic way.

Mayor Cason: I know it's sort of, again, water under the bridge, but if you look at the blue line, what were the main elements that led to that superfast rise from...?

Mr. Tierney: Over the longer period, you mean in the last part? That's normally the shortfall in the assets. There's other elements, though. You know, there's all sorts of things that added up to other significant parts of the actuarial unfunded, but you know, it's an accumulation of things, but there are also benefit increases that occurred in the past as part of that line, so.

Commissioner Keon: The blue line? The upward line? The blue line?

Mr. Tierney: So if you look at the...

Commissioner Lago: Salary increases...

Mayor Cason: More people.

Commissioner Lago:...more people, new hires.

Mr. Tierney: No, no. I'm talking about benefits improvements as well as shortfall and...what you are talking about is there adverse actuarial experience due to greater salary increases. Yes, there was some of that too in the past, but we haven't broken that down. It's sort of, you know, water under the bridge.

Commissioner Lago: Yeah, because what the Mayor just mentioned, when you look at it, it was a pretty significant rise in the unfunded, you know, during the time frame.

Mr. Tierney: Well, that's right. I mean, we just need to be aware that that's an interest rate issue, and that's a benefit improvement issue, in general, but majority part. But there were other things that had been fixed that won't occur again but also added to that accumulation.

Commissioner Quesada: If you look at the blue line and the version that's on the TV (television) always looks a little different. Okay, there you go.

Mr. Tierney: Well, we're only showing the...

Commissioner Quesada: Yeah, just the first line so far. I got it.

Mr. Tierney: First line is where we've been. We're trying to paint a picture for you.

Commissioner Quesada: If you look at 2002 to 2004 when the economy was doing well down here in 2002/2005 throughout the country, and there's still a huge spike. And then, obviously, 2006/2008, there's another huge spike, and then again 2008 to 2011. I mean, it was a pretty consistent rise regardless of what the...

Commissioner Lago: The market did?

Commissioner Quesada: Yeah.

Commissioner Quesada: I know we're talking about the water under the bridge, but I think it's more than just what you mentioned; just the market conditions.

Mr. Tierney: Well, in my opinion, whenever it may have been have been addressed. You know, we went through a trauma in the last couple years relative to...

Commissioner Quesada: We know. We've been living it.

Mr. Tierney: Well, I'm just saying, in terms of addressing those things that, you know, we've spent a lot of time and there's been a lot of corrections and increases that didn't have to do with investment or return.

Commissioner Quesada: Yeah.

Mr. Tierney: But, again, you know, in my opinion, it's not ongoing; it's not something that I am telling you to be worried about going forward. We'll show it in a line, but don't forget the assets moving delays the effect of the traumas that we're talking about. You mentioned like nine and ten. Well, that's because the full blow in eight hadn't been hit yet. I mean, when you only do 20 percent a year, by the time you get to 60 percent, all of a sudden it's like "wham." So you have to realize there's a delay to set the interest rate (UNINTELLIGIBLE).

Commissioner Quesada: Okay, so what do you think the duration of the delay is; six months, a year, two years?

Mr. Tierney: The delay in smoothing?

Commissioner Quesada: Yeah.

Mr. Tierney: Five years.

Commissioner Quesada: Five years.

Mayor Cason: Five years smoothing.

Vice Mayor Kerdyk: I'll tell you, you know, in retrospect everything you can look in retrospect. When we were making money, we were funding our operating budget. We should have been putting it, reducing discount rates or whatever at that point. You know, it's so easy to say it now, but in the past, we were doing other things so.

Commissioner Quesada: No, but Vice Mayor, it's very important for us to really recognize, you know, the decisions that we made in the past so that we don't...

Commissioner Lago: Avoid them in the future.

Commissioner Quesada: Yeah, so we avoid them in the future.

Vice Mayor Kerdyk: Right.

Commissioner Quesada: So I think that's why it's important to really understand all of the impact. It's not just market conditions; it's also decisions that were made at that time.

Vice Mayor Kerdyk: But there's also market conditions, because at that point, we never thought the market would go down. You know, we always assumed that we were going to get these returns on our investments and we assumed wrong. I guess you should always look at what can happen as to what...

Mr. Tierney: I think (UNINTELLIGIBLE) back in 2000, you were assuming 8.5 percent on investment return, so that's been (UNINTELLIGIBLE) down. We've already talked about that. Increase (UNINTELLIGIBLE) -- well, that shows in the charts. Part of it is adjustment and assumptions to try to make the investment assumption be less aggressive. That's part of this.

Commissioner Quesada: Even at seven and three quarters, from my perspective, I think it's "overly rosy," to use your term.

Commissioner Keon: Yeah. But what we're going to see, we know that, or we believe that, that still is high. But as we reduce that expectation of returns, our unfunded liability is going to continue to rise.

Commissioner Quesada: Yeah, which is why...

Commissioner Keon: And it's going to go up, and we need to know that and accept that, that that's the reality; and if we're really going to deal with this issue you have to be willing to accept that.

Mr. Tierney: And there are things going on that I hope will continue, which is, you know, we had a debate yesterday about the experience study at the board level; trying to be able to make sure that we do the best we can and looking at the assumptions and making sure that we do our -- the best guess that we can. You know, these things aren't details. They're not as large as some of these other affects, but they still add up if you're the wrong way on several of them. So you know, all those things that increase attention, focus, and all that stuff is now happening; it didn't used to happen, and there was no discussion in the past about any of this stuff. And so I think, you know, to me, it's always healthy to have increased attention, increased debate about these things so that you're focused on trying to keep it close.

Commissioner Quesada: And we agree. That's why we're here today.

Mr. Tierney: Yeah, but that's half of it. Keep in mind, since we're not in charge of it --

Commissioner Quesada: It's also important to note...

Mr. Tierney: We can give input.

Commissioner Quesada: And there are a number of the Pension Board members here today. They do a spectacular job as well in discussing these issues, so thank you.

Mayor Cason: We've got 25 pages to do in 50 minutes, so why don't you continue, you're on page 20, right?

Mr. Tierney: The first line, the continuation line is if you do nothing, that's how the unfunded gets paid off with your current contribution levels, current meaning the current projected levels.

Commissioner Quesada: You are saying that's the green line?

Commissioner Lago: Green line, correct?

Commissioner Quesada: There should be nothing?

Commissioner Lago: So we're looking at around 20, 45?

Mr. Tierney: Yeah, in terms of when it drops to zero. That's correct.

Commissioner Keon: That's 30 years.

Mr. Tierney: Even though, as you can see, it gets (UNINTELLIGIBLE) not too much, you know, several years (UNINTELLIGIBLE).

Commissioner Lago: If everything works out accordingly.

Mr. Tierney: That's right.

Commissioner Lago: If we meet our financial goals.

Mr. Tierney: Thank you.

Commissioner Lago: Which we haven't met in the last 13 out of 14 years.

Mr. Tierney: Correct. That's right. And that's, of course one of my major messages is that we have to understand these are discounted present values. I'll get there in a minute and then I'll be done. The next part of the graph, I guess it's the black one, is if the assumptions are changed per the experience study and you can see there's an initial jump-up compared to the current; meaning, you may have to pay a little more in the first several years, but then, eventually, it's a little less. So that tells me that the assumption are not going to be a big blow to us, even after a study in revisions and all that stuff, because there were counter balancing pluses and minuses as part of that experience study and the effect on assumptions.

City Manager Swanson-Rivenbark: Mr. Mayor, they're resetting the PowerPoint, so you'll be able to see the slide in full color, but it'll just be a minute, but you can continue your conversation.

Mr. Tierney: And the red line is to try to demonstrate if you were to pay, this is Diana Gomez's idea, which I think is a good concept to demonstrate what could be done. Currently, the budget is 26 million. Well, if the current requirement is 23 or 23 and a half, that means that extra, if you pay it, would be an extra amount contributed to the plan to reduce the unfunded. The red line shows that if you did that, continuing to pay the 26 and I think this is without indexing, isn't it, Diana? The 26 million that we're showing here is without indexing right?

Finance Director Gomez: Right.

Mr. Tierney: Yeah. So you could even index at 26 million in accordance with budget to make it 26.4, 26.8 and even make it more rapid than this. This is a flat 26 relative to the projected contributions that the plan actuary did. So you can see that instead of 2040, whatever -- what was that, Vance, 2040, something or other.

Commissioner Lago: 2045.

Mr. Tierney: It drops down to like 20/30. You cut the amount of time down consistently, so if that's your objective, that's fine. Just a matter of you're going to get to 100 percent; just a matter of how fast. If you do that and you have some shortfalls in assumptions, that means that you have sort of advanced funded those, that bad news or the assumptions that prove to be unduly optimistic, so you're ahead of the game, relatively speaking. It may take you a little longer than the red line, but at least now you're in a better shape than if you hadn't tried to address it earlier, so you know, and of course that number can be whatever. You can make it 30 million, and the number will drop even faster. But this demonstrates an example of how you could address it on an increase annual basis. Slide 20: No, we don't need the assets. You know, even if we didn't put any more money in, there's enough money in there to make payments for next 10 years. That just puts perspective on the cash flow issue. You know, it's 54 percent funding status. Important to worry about? No. You got money, even without contributions. Because you have a contribution requirement by statute, so you're going to be way better than that in terms of making sure that you're not going to run out of money. So if that's a concern, you know, the funding mechanism, the way it works, I mean, the delayed payment nature really is something that I don't...we should be focused on what we've been talking about, not about the current situation, but how we want to pay off the unfunded, how fast we want to pay off the unfunded; how conservative we want to make on, what the assumption is. It's like a path that we take and what we pay. And I say that, we're not telling the Pension Board or the Pension Board actuary sent us a bill for 26 million, we want to get a bill for 23 million so we can make extra payments. So, yeah, it's not that we're trying to have them change their things. We can be proactive in showing that we are making additional steps to address the unfunded.

Commissioner Keon: So that's a decision that the City makes?

Mr. Linn: Right. Yes. I got three more slides. To put it in perspective, and we talk about discounted future annuity payments. The future payments for the current people, current actives, when they become retirees and retirees, is about \$1.8 billion, okay. We have assets of around 300 million. That means that between now and 30 or 40 years in the future, we got to come up with the difference, and there's two ways to make it. One is through investment earnings and the other is through contributions. You can see that the projection is that we have to make, you

know, almost a billion dollars, \$960 million dollars in earnings to make up that discounted present value so we can make those payments. We have to come up with 535 million of contributions in order to make those payments. And for every dollar shortfall that you have an investment earnings, you got to pay a dollar more in contributions. So that, to me, it puts it all in perspective that we have nowhere near the amount of money that's going to be needed in the future, but if we can make the investment return, it pays for two-thirds of what we have to come up with. And if we can't use the investment earnings, we don't make as much, it means that we have to pay more, so that's the take away. Okay, now we talked about the other element, even though it's an unfunded liability session. The normal cost is sort of future service version, even though, keep in mind, technically, it's not the way it works. And so, you know, like we talked about, it's only 10 percent, and it's a small part, but it's still the only part that we, you know, can address in terms of cost going into the future. It's the second part of the pension contribution or requirement. Even though we're overwhelmed by the unfunded part, we still have this normal cost part. And in slide 23, you can see the current normal cost rates of your current plan after revisions, and those contribution requirements will probably ratchet down as new people replace the current people, so that's the current version of the City normal cost for each of the groups. And you can see that, from my perspective, on a normal cost basis, your plans with all the reforms that you've done, the normal cost is not out of line. Now, those normal costs will go up if you lower your assumed return, so it's all a matter of you take 15 percent's a good (UNINTELLIGIBLE) made it up -- you know, and the assumptions take you to 16, that means, well, maybe there is something you want to do, but that's all hypothetical. That's all a matter of right now this is what you have based on seven and three quarters, and you can judge whether that's unreasonable. In general, plans throughout the state, this is a pretty reasonable number of costs rate for your current set of plan provisions. You've really done most of what you needed to do in terms of the reforms, relatively speaking. Okay, I'm done. Are there any questions before I turn it over to Jay Glover of the Public Financial Management Group?

Mayor Cason: Let's hear from Jay.

Commissioner Quesada: Thank you, sir.

Commissioner Lago: Thank you.

Mayor Cason: Thank you very much.

City Manager Swanson-Rivenbark: And for the public, there are still extra copies of the PowerPoint, even though we're delayed on getting the PowerPoint on the screen, if you want to follow.

Mayor Cason: So you're going to give us a miraculous, no-cost solution, right?

Mr. Glover: Hey, I wish. Mayor, Commission members, City Manager, Jay Glover from Public Financial Management. We're the City's financial advisors on debt-related matters. I've been before you a number of times; any time there's a debt-related matter before you. With me is my colleague Mike Nadol, who's going to talk a little bit about pension obligation bonds, after I do it. Just a brief couple of minutes about debt ratings and how pensions affect debt ratings. There's six or seven slides in here. I won't go into detail on all of them. Obviously, feel free to stop me if you have questions. But I'll start on page 26, and this is probably not news to anybody in here, but the City's current credit ratings are double "A" plus, double A1, which are really in the upper echelon of all local governments in the state of Florida. S&P (Standard & Poor's) recently reviewed the City's credit in 2004, and you can see here highlighted at the bottom what they noted: a very strong economy, very strong budgetary flexibility based on current reserve levels; strong budgetary performance; very strongly liquidity; strong management of good financial policies; and then they have the one caveat: weak debt and contingent liability position, which is really related to your pension, because the City has very little overall debt. So the debt profile is actually very strong, but in the way that Moody analyzes it, the pension liability is the one thing that's really holding that rating back potentially from that triple "A" level that I think we all desire to be at. So here on 27 again, I just want to highlight, the one thing I want to make a point here, too, is really the rating agencies, whenever they look at credit ratings, they've always looked at a number of factors, but most recently, they put more weight on pensions and debt as opposed to the other factors, so on 27 you can see here Moody's really put a methodology in place whereby they adjust the net pension liability so they can compare different

local governments across the state, as well as across the country, on an apples-to-apples comparison. So you see here, they actually have a set of assumptions they use when determining net pension liability, which is going to be very different than what your actuary shows on the report. So they eliminate any type of smoothing. They use a discount rate of 3.48 percent, which fluctuates as the market fluctuates. Obviously, interest rates are very low now, and they use a Citibank pension liability index, so that's going to drive down as interest rates go up, thus pushing your unfunded liability up. They also use a 20-year amortization period. So whenever they're actually looking at your pension liability and a site that in a report they do, it's going to look much more inflated than what your actual actuary report shows, so just keep that in mind if you see pension, liabilities on a grading report. It's usually going to be much higher than what you would expect to see.

Mayor Cason: Is that rating available? Where we stand sort of statewide, is there a way sort of to see how we are against the rest of the plans?

Mr. Glover: In terms of the overall credit rating?

Mayor Cason: Yeah, the plans.

Mr. Glover: Yeah. We can obviously provide any information you have. All credit ratings are publicly available. There's a handful of triple "A" entities in the state of Florida; probably less than 10 that are triple "A." Obviously, you all very much in the upper echelon with the goal of getting a triple "A," but even at double A-plus, you have a very strong credit rating. But we can provide information about credit ratings throughout the state if that's helpful.

Commissioner Quesada: We were downgraded, what, six years ago, five years ago?

Mr. Glover: Yeah, I don't remember exactly, but the City was triple "A" at one point. The reserve levels got very depleted, which was the main reason why they downgraded the City to double A-plus. And we'll go in a little bit more detail, a few slides about that.

Commissioner Quesada: Okay.

Mr. Glover: Really, the reason it was downgraded has really reversed course. I mean, your reserves have been built back. You're structurally balanced in terms of your budgets and your financials. The economy's great, so it's really the one issue still is the pensions as it relates to that credit rating. I'm going to skip to page 29 here, and again, this is just a pictorial, down here on the left, it shows the weight of the each category that Moody's looks at when they actually rate the City. So at the bottom, you can see they used to put a lot of emphasis on the economy and tax base it was 40 percent of the rating; finances was 30 percent; management was 20 percent; and debt and pension was only 10 percent. That was before they changed their methodology. Now they've actually reduced the emphasis on the economy down to 30 percent and increased the weight on pensions up to 20 percent.

Mayor Cason: As a practical matter, does it make much difference, I mean, we have very little debt. In terms of would it cost us to fund things like streetscape or other things, the fact that we're not triple "A" or double A-plus? Does that make much of a difference?

Mr. Glover: It does make a difference. Obviously, if you were triple "A" rated, you would get the lowest possible cost of capital out there. Being double A-plus, you obviously get a very attractive cost of capital. I would say just in general, a one notch rating is probably 20 to 25 basis points probably in terms of your cost to capital. That changes constantly as market conditions change. But even at double A-plus, I mean, you're cost of capital is going to be very low.

Mayor Cason: I mean, it doesn't look like what you're saying, we're going to get to triple "A." with the pension.

Mr. Glover: We'll get there. I think there is a course to get to triple "A," and actually, we'll cite some information in the report that discusses why that might be possible.

Mayor Cason: Okay.

Mr. Glover: Again, here on page 30, just a little more detail. The last page showed just the overall categories in terms of a rating. This chart here breaks it down and shows you the various metrics in more detail that they looked at. Obviously, the size of the tax base, per capita income, wealth levels; they looked at fund balance, cash balances; they look at your institutional framework, management; various policies you have in place. They also look at debt to full value, debt to operating revenues; and then the two at the bottom there, they're looking at your adjusted net pension liability, so adjusted using Moody's methodology as it's compared to your full value and as compared to your revenue. So they don't necessarily look at the number. They don't look at it and say, "You're 54 percent, you know, funded." You know, that's good or bad. They actually look at what that liability is compared to the resources you have available to make those payments. So two entities that might be 50 or 70 percent funded don't necessarily have the same resources to make those payments, so while they do pay attention to the actual funding amount, they pay more attention to what the liability is compared to the resources that the City has available to make the payments. And in Coral Gables' case, we've mentioned before, you obviously have the resources available here and are making your annual payment within the budget. So, while you have a fairly large unfunded liability, you have strong financials that allow you to make those payments as they currently stand. Again, we're just going into more detail. This is more subcategories in terms of the debt and pension costs in looking at the various ratios and whether they fall into the triple "A," double "A," and down from there. I won't go into a lot of detail here. Obviously, if you all have questions, this is just the overall metric. If you turn to the next page, which is more pertinent to you all, this actually shows where the City of Coral Gables fall based on each of these metrics. So as you can see here, in the net (UNINTELLIGIBLE) to full value category, you actually come out in the triple "A" segment. You have very little debt compared to the sizable tax base that you have here in the City. In terms of your net direct debt to operating revenues, you're really in the middle of the double "A" category there. So again, a very strong rating. Where you start to fall off a little bit is the fact that your adjusted pension liability as compared to full value in revenue is down in the "A" category. So that's really the one area, if you looked across all four categories, is the one that's not going to be in the double "A" and triple "A" category here. Again, just a little more detail here in terms of each category. So again, here the economy and tax base: triple "A" across the

board essentially. You have a very strong economy and a very wealthy tax base. Your fund balance and cash balance levels are all in the double “A,” triple “A” category. Your fund balance continues to grow, which is a good thing. So that metric starting to move more to the triple “A” category. Management. This is the one that looks a little bit like an outlier here in the terms that it falls in the “A” category. That's because half of that criteria is the fact that you are in the state of Florida. So everybody in the state of Florida has an “A” as it relate to that. Just through the legal ability to raise revenues and some limitations you have on that. In terms of your operational framework, you're actually much higher rated, but there's not a lot you can do to that management category, because being in the state of Florida, Moody's really dings you, rightly or wrongly, but that's just the methodology they use.

Commissioner Quesada: But the one that really throws us off is the pension liability.

Mr. Glover: Exactly. You can see that direct debt liability again is right in the triple “A” category, but it's that pension liability that really pulls you down. And keep in mind; this is not an exact science in terms of this indicative rating. They do make adjustments below the line and they can move things, one way or another, a notch or two so. As I wrap up my section here, I do want to read an excerpt from the most recent S&P report, because I think it is indicative of where we are and encouraging to the City here and this is a direct quote from their June report. It says, “The combined annual report pension and other post-employment benefit pay-as-you-go costs for fiscal 2012 were high at 19.8 percent of expenditures.” But this is obviously the good part. “However, in our opinion, the City has an incredible plan to address its pension obligations, having implemented several reforms in recent years to stem rise in costs; and then they indicate that future direction will likely reflect the City's pension liability, given its size relative to the budget.” So obviously, the rating agencies have noted that you've made multiple changes to the benefit structures and other things that we've talked about and are moving in the right direction. So I think there is a course with a few tweaks and some improvements, continued improvement and fund balance and obviously things like that where the City probably could get back to the triple “A” level. In other words, you're not going to have to get to 90, 100 percent funded necessarily to get to that triple “A” level. There's other things that you can do.

Commissioner Keon: Yeah. Is 80 general percent generally an acceptable funding level?

Mr. Glover: Well, again, it's hard to say. It's really relative to the revenues available to make that payment. Mike's a pension expert.

Mr. Nadol: That is a common "rule of thumb" that you hear some folks cite, so I can certainly understand why you would ask that. As Jay noted, however, the funded ratio, per se, is really less important than viewing your liability in the context of your resources to pay it.

Commissioner Keon: OK.

Mr. Nadol: And that's not only the way the rating agencies address the issue. That's also something that the Society of Actuaries, that's one of the leading professional groups for the actuarial profession that Mike Tierney represented earlier, has written about. They've described that 80 percent number as something of a myth in the sense that it does tell you something. It may be an indicator on your dashboard, but it's not the sole or necessarily even the best way to think about your capacity to meet your long-term obligations over that long period of time.

Commissioner Keon: But given the resources that the City has available to it to make the payments to the pension fund with that component, if our goal is 80 percent as opposed to maybe 100 percent, is that reasonable? I mean, based on what we have we know unless something terrible happens that we don't have the resources to actually make the contributions, but given our current structure and given the revenue from the City and, you know, given the management that is in place and whatever else, we're going to assume that we will, so based on that, is our goal 100 percent with regard to rating or is our goal 80 percent with that ability to fund remaining constant?

Mr. Nadol: In terms of the rating impacts, as Jay noted, again, it's not an exact science. I would suggest that reducing the liability, which would certainly correlate with pushing upward your funded ratio, would certainly have a positive impact on your rating and help you get there in terms of regaining a triple "A." So that would be one factor.

Commissioner Keon: OK.

Mr. Glover: It's just it's a difficult question to answer in the sense that there's not a specific (UNINTELLIGIBLE) the rating agency say in terms of "this is the level you need to get to in order to be triple "A." There's a number of factors that go into it. But anything that you're doing to decrease that liability over time, which you've already started to do, is obviously going to be a credit positive. And when you combine that with the fact that you've continued to grow your revenues and despite the fact that we've been in one of the worst economy downturns for the last four or five years, you're each year, I think at least for the last three or four years, you've been operating at a surplus. Your debt values or debt ratios are very low, so you have a lot of positives on the other side, such that maybe your pension score doesn't need to be as high as some others might to get to that triple "A" level.

Commissioner Keon: I guess what I'm asking is, it doesn't have to be 100 percent?

Mr. Nadol: Well, just to get your ratings moving upward, perhaps not. In terms of what I think would be a positive goal generally, aside from the rating question, it is important to seek to be fully funded. And one of the other complexities that just layers into where you benchmark that is that as I'll talk about in a few slides to come, some of your comp status is a function of where you are in the business cycle, how the markets are performing; and if you are 80 percent funded at the bottom of the market...

Commissioner Keon: You're in trouble.

Mr. Nadol: no, no, you're actually in a good position because it's going to climb back up and you can ride that wave.

Commissioner Keon: Right.

Mr. Nadol: And of course, you don't know exactly. If we all knew that, we'd be doing something else, you know on the beach right now. But if you knew you were at the peak of the market or in hindsight, if you recognize that at a certain juncture you were at the peak of the market when you were at 80 percent, that would be problematic.

Commissioner Keon: No, not a place to be.

Mr. Nadol: You know, in kind of normal you would want to be fully funded if you could be, because that keeps you on the smoothest path to meeting your long-term liabilities.

Commissioner Keon: OK.

Mr. Nadol: Again, if you are in a “frothy” period in the economy, you might want to be a little more than 100 percent funded even though that's difficult to manage in terms of perceptions. And if you're in a recession, it's probably OK that you've dipped a little bit below 100 percent because, hopefully, you'll have an opportunity...

Commissioner Keon: You'll come back.

Mayor Cason: I think Commissioner Quesada's going to...

Commissioner Quesada: Yes, Mr. Mayor; I got to run. I had a previously scheduled special set hearing at 11, and I'm worried I'm not even going to make it then, so thank you for everyone. It's been great. Walter if you can give me a CD.

Mayor Cason: So we're going to go on to pension bonds now?

Mr. Globber: Yes. I went very quickly through that rating information. There was a lot of details. So, obviously, if there's any questions you all have, we can address those. But I think Mike's going to talk a little bit about pension obligation bonds and considerations for those.

Mr. Nadol: So turning to slide 35. One of the options that is sometimes great as a strategy for addressing a large unfunded liability is the issue of pension obligation bond, or POB, which I'll try to avoid the acronym, but I may slip into it here and there. So what I'm going to talk about over the next several slides is a little bit about the theory of how a POB could work, but also some of the risks associated with that strategy and some of the experience of public sector issuers where it maybe hasn't always worked as it looks like it would on paper. So on slide 35 you see a sort of summary outline of why some cities have pursued pension obligation bonds. The first reason, frankly, is short-term budget relief. It can be possible to structure a debt issuance that helps you reduce your pension liability in a way that gives you short-term relief, because maybe you defer the debt service payments a little bit; so your pension liabilities come down, but your short-term debt service might be kind of almost automatically lower than those prior payment obligations. That's not a recommended practice. That borders on budget gimmickry, and it's a not applicable here, given the sound overall financials you have, but just wanted to note that, for better or worst, probably worst, it is part of why some other places have pursued this. The primary reason that governments, even including those who are not in the dire straits and resorting to budget tactics, have pursued this is because, again, on paper, there can be actuarial arbitrage potential from issuing a pension obligation bonds. And the theory here is that you can borrow money at a taxable rate, unlike most of the debt you would issue, the federal government requires a pension borrowing be issued at the taxable rate, but that taxable rate is often, and under current market conditions, would be lower than that 7.75 percent assumed rate of investment returns if you have built into your actuarial plans. So if you turn to the next slide, you kind of see graphically that, again, theoretically, the hope here is that you borrow at a rate below that 7.75 percent. As a result, your debt service is lower than that rate of return. You take the proceeds from the borrowing, put it on the market; if it does achieve over time that 7.75 percent return, you've captured a little bit of arbitrage, a little bit of a windfall that can be used to enhance your overall pension positions. The challenge is that that 7.75 percent, first of all, is of concern generally and something that we understand may be reevaluated, but whatever the optimal actuarial rate of return assumption is, that's a very long-term assumption. And over shorter periods of time, there's going to, inevitably, be volatility, such that the outcome of issuing a bond that is typically going to happen kind of all at once not be phased in over time, is very subject to those timing considerations. So if you turn to slide 37, you can see that at some of the

large pension obligation bond issuances nationally have had very different experiences, based on what point in the market's ups and downs those bonds were issued. If you look at Oakland and New Jersey over toward the left side of this graphic, they issued at a relatively low point in the market. They were fortunate; timed it well. And that slug of money that they infused into that pension plan experienced that upward trajectory over the succeeding years; that was beneficial. The City of Stockton, for the right-hand side of the graphic, issued much closer to the peak of the market and almost immediately after taking on debt service to put into their pension fund would have seen the value of what they had borrowed decline fairly sharply.

Mr. Glover: One thing I'll add here and Mike and I are not investment advisors, so I'm not going to suggest where the market might go from here. But you'll also notice where this line is trended and where it is now. So not to say it won't continue to go up, but.

Mr. Nadol: So turn to the next slide, some analysis we're sharing here with you that was published by the Center For Retirement Research at Boston College, one of the leading academic centers for looking at pension and other retirement security issues. And they did an in-depth research project of several thousand pension obligation bond issuances by over 500 government-related entities around the country over the last several decades. And what they calculated was assuming a sort of typical investment portfolio, heavy on equities, lots of bonds, kind of a standard portfolio; what would the returns have been year by year relative to the debt service payments that these different governments were obligated to make; and looked at whether it was a winner or a loser; did the returns exceed over time the debt service payments or were the debt service payments actually greater than the actual returns? And as the next two slides and the next one illustrate, the results are, again, very sensitive to timing. The first bar chart on the left of slide 38 illustrates that even at the peak of the market in 2007 when most pension obligation bonds issuances were in the black were achieving a favorable return, were meeting some measure of that goal of capturing arbitrage. You had some issued just prior to the tech bubble collapse, the start of the decade of the 2000s that were in the red, even at the peak of the market. When you turn to the next graphic on this page, as of 2009, when the market had dipped precipitously you can see this, almost everybody was in the red as of that juncture. And then turning to slide 39, you can see get a sense of where we are, more or less, today, the most recent

analysis based on most recent returns. And today, with the market's recovery, most periods of issuance have some kind of a positive return, but even so, there are those issued that haven't yet with the recovery of the last several years with where we are on that line chart that Jay noted previously, that even yet have not come back and entered a positive return territory. And those that have the very positive returns, those issued kind of at the bottom of the great recession and that have really benefited from the recent market upturns, by and large, have many years to go before you can fully judge whether they worked out. So they're looking good today, but time will tell how that experience ends up over the long haul.

Commissioner Keon: So this is a risky strategy, huh?

Mr. Nadol: It certainly has market risks, and again, of course your pension fund always has market risks, but by and large, you're putting relatively similar amounts in every year. It's almost a dollar-cost-averaging kind of approach, for those familiar with that concept from perhaps your personal investments. With a pension obligation bond, although there are some techniques to smooth out when you put the money into the market, by and large, it's taking a big chunk all at once and that exposes you to the volatility in a way that is markedly different from typical pension investments. So slide 40 sort of illustrates how if you had perfect knowledge of what you would want to do, which is assuming the borrowing rates are low enough and they're going to vary too across time and in different market conditions, but assuming relatively low market rates, the ideal time to do this when there's less risk would be when the market is near its bottom, has perhaps not yet even gotten back to the peak level of the prior economic expansion phase; and in that moment, again, I would not say there's no risk, but there's less risk and a better chance of a positive return from this kind of strategy. The challenge is in real time, you never know exactly where you are along this curb. It's only knowable in hindsight. And as we think about where we may be on this type of curve as of the moment, in addition to the line chart issue that Jay noted earlier, the next slide 41 highlights where we are in terms of this business cycle and this expansion phase. And it may not feel like the national economy has been in recovery for 68 months, but that's how long it's been since the recession technically bottomed out in June 2009. If you compare that 68 months and counting to the average of the post-war business cycles,

we're actually 10 months farther along in expansions than the average length of a recovery period.

Commissioner Lago: So without saying it I think we missed our mark.

Mr. Glover: If past history would predict future, yeah.

Commissioner Lago: I think slide 40 is...

Mr. Nadol: Most mainstream economists think the recovery hopefully has a couple more years to go, and we certainly hope so as well. But if you want to look at even five years, if you project out another five years, this would have to be a record expansion period longer than any since the end of the second World War in order for us to still be experiencing national economic growth. The final section of our summary of some of the considerations for pension obligation bonds involves a rating agency views on these issues, and there are two key themes, and I won't go into this kind of line by line. But the two key themes, as Jay already noted, the first is pensions are an important aspect of an overall credit rating for all three of the major rating agencies, and there's greater scrutiny now on retiree liabilities than there even was in the past, given some of the challenges that many governments nationally have faced coming out of a great recession. The second key take away from some of the excerpts that we have here is that pension obligation bonds are not viewed by the rating agencies as any kind of magic bullet for addressing unfunded liabilities. At best, they're viewed as a credit-neutral act in the sense that you are taking one liability, a long-term obligation to pay pension liabilities, and swapping it for debt service in a long-term debt liability. And in addition to that being something of an exchange, the rating agencies also note that a pension liability is a somewhat softer liability. And here in Florida, as Jim or Mike can better explain than I could, you have certain statutory responsibilities to pay down your pension liabilities. But even so, with changes in actuarial assumptions and the like, there's some softness or flexibility there with a bond issuance and debt service that's a much harder liability with less flexibility. It's just you have to meet those debt service payments, unless market conditions somehow allow you to refinance. So again, at best, the rating agencies view this as credit-neutral, and they do believe that with a long-term perspective in moderation

with a thoughtful prudent approach and maybe thoughtful consideration of market conditions, it can be okay and it might even be a good idea for some governments, but it's by no means a quick and easy solution that's going to, in and of itself, help your credit rating, even if it were to raise your funded ratio or reduce your pension liabilities, because while that would be happening in a good way, your debt picture and your debt burdens would be going up and it, more or less, balances out from a credit perspective. So given the time, I think I'll just note that slide 44 summarizes many of the issues that we've already sought to outline. Be happy to take questions for...

Mr. Glover: One thing I may just want to point out as the last bullet here, because I think it's important to note also because, you know, while the City might have sufficient debt capacity to issue a pension obligation bond, you have to keep in mind that, obviously, over the long-term, that would result in decreased capacity to do other capital projects moving forward, so it's a balancing act. Obviously, there's a finite amount of debt capacity overall, and the ability to use it to fund a pension liability versus to fund capital projects would need to be weighed if you would want to consider that. So I just wanted to make sure that was clear. That's the one thing we didn't hit on. But again, Mike and I are here to address any questions you all might have. And if not, we can turn it over to Donovan, who's going to talk about some of the accounting aspects of pensions.

Mayor Cason: Thank you very much.

Commissioner Keon: Thank you.

Commissioner Lago: Thank you.

Donovan McGinley: Good morning, Mayor and Commissioners. My name is Donovan McGinley with McGladrey. This is going to be the least exciting part of the presentation. This is the accounting aspect. I know some of you guys mentioned about GASB. Just for the record, GASB, which is the Governmental Accounting Standard Board, is the body that sets the accounting standards for financial reports for governments, and needless to say, obviously, we

follow that. And Diana and her group, the Finance Department, that's the model of accounting that she reports under. You are starting GASB 68. Basically, what this means is that the GASB over the past few years have promulgated some rules that are going to become effective next year for financial reporting; and the biggest change, as it relates to this, relates to the fact that we talk about the unfunded vis-a-vis pension obligation in its essence is going to be now reflected on the financial statements. Before the financial statements centered around funding versus liability, so now this liability is going to be on financial statements. It's going to be very transparent to everyone to see what that number is, and it's basically your net pension obligation for record speaking, less the net position of the pension plan, which is the net assets of the pension plan, and that's the liability that's going to be reflected on there. In lieu with that, there are going to be some changes as it relates to flip note disclosures, and as -- I like pointed out in some of these things and I think Mike mentioned in terms of the movement of pension obligation bonds. The debt's going to be known as the unfunded liability. The issuance of bonds, I think Mike did a good job in explaining that this is just an exchange, so if you're issued bonds and you have that liability reduced, it's no longer there, obviously the bonds are going to be reflected on the financial statements, so it's really an exchange of one debt to the other. I have a quick note here about impact as it relates to rating agency. I think Jay and Mike covered a little bit about that, in terms of what that impact could be. We don't know. In some instance, that liability was probably already baked in their assumptions in terms of the ratings already, but we don't know when that literally hits the balance sheet, what that's going to look like. The good news is that everyone has to comply. So, all cities are going to have that same deference in terms of reported list and reported list, so everyone has to have that equal look as to what that number is and what that impact is going to be on the financial statements, and that's the unknown at this point in terms of that new number now that's going to be there, how that's going to impact the City in terms of its outlook. Again, this is going to be reflected, not this year, but in 2015 and beyond financial statements, and I guess we'll look forward to that. And that was my brief presentation. At this point, I think this ends our collective presentation, and we'll open the floor for general questions.

Mayor Cason: Mike, this was very helpful, at least, to me. I think, looking forward, Cathy, it could be useful to have another session on moving to defined benefits. Is that what we call it?

City Manager Swanson-Rivenbark: A defined contribution.

Mayor Cason: Defined contributions from where we are, is another possible thing that could be done and then the pluses and minuses of how you finance a transition as another possible tool to look at.

City Manager Swanson-Rivenbark: And Mr. Mayor, we've taken notes on questions that you've had. What I would not want to do is alarm our employees so that if we were looking at the concepts of a defined contribution and what benefit that would provide, I would be suggesting, most probably, that it would be an optional offer as a part of this first introduction. So I recognize the good work that has been done, how that has changed the financial future for the City, but I also recognize that our consultants had made it clear that the biggest challenge that you all have regarding the unfunded is the legacy cost and not the cost moving forward. Are there any questions that you have for your experts? And if not, I do want to thank Diana and her entire team. They worked really hard, when you all wanted a workshop on unfunded, to give good, thorough preparation and to bring experts that could help answer the questions that you...

Commissioner Keon: So I want to make sure again, anything dealing with the projected return on revenue, that is a decision that the Pension Board will make, the pension; is that right?

City Manager Swanson-Rivenbark: We'll, since Diana is a member of the board, but Mike can also contribute. I'll look to them for that answer.

Mr. Tierney: Yeah, the Pension Board makes the decision about what discount rates to use in order to estimate the unfunded and the actuarial accrued liabilities that we talked about.

Commissioner Keon: And the rate and what about longevity tables. That is also a decision...?

Mr. Tierney: All the assumptions are within the province of the Pension Board. Yes.

Commissioner Keon: OK.

Mr. Tierney: If you want to have further discussion on that, I'm sure that there'll will people that are well capable of addressing it, but for purposes of how to address the unfunded I think when I was trying to send a message is that all those things are relatively minor in terms of trying to address the unfunded problem, and you know, whatever might have been true in the past is I don't think any longer true, and so the differences that you're talking about, even though, if you were an actuary, I don't know if you are, but probably not. But if you were, it might be interesting, but generally, you know, mortality tables are not the most exciting thing to try to...

Commissioner Keon: No, but it's going forward and we also you know, if we're going to be excepted, or if it's anticipated that the return on investment is lowered and the longevity more current longevity tables are used, that the likelihood is that unfunded liability is going to increase. And so, in whatever plan that we make, we have to take that into consideration as to what the contribution is going to be if we want to pay down that unfunded liability and at what rate do we want to pay it down. So I guess there's a couple of issues out there that are Pension Board issues for the Pension Board themselves as to how realistic are you going to be with regard to longevity tables and with your return on investments?

Mr. Tierney: Well, it's an actuarial issue with Pension Board seeks advice and recommendations from the pension plan actuary and, we've just been through an experience study; I've reviewed it. I can tell you that the inclination is to try to be as realistic as possible on all the assumptions, including the mortality tables, and the investment return is likely going to have to be addressed next time anyway, so those things are going to be addressed. It's just a matter of whether you want to have input into them. I'm sure they'll be willing to take input, but you know, their decision isn't to try to make it too conservative or hide behind and not charge enough. I think the tone is that they want to be realistic and they don't want to have any, they want to be as close as possible to actual future experience. These are all intelligent guesses. And so, you know, the issue on mortality table is how much future improvement do you want to anticipate. It's not improvement that's already occurred. The issue on the mortality table is discussing how much

future improvement that hasn't happened yet do you want to bake into your current estimates. That's the issue.

Commissioner Keon: Right.

Mr. Tierney: Well, that's pretty, we're getting pretty far down the line from, you know, trying to be realistic to what we know and into guessing about, you know, what future health conditions might do. And I don't know if you've looked at that at all, but you know, you may improve quality of life in the '80s, but people still died by 95. I mean, that's one of those things where you're not going to extend the table, but you might get more people living, you know, longer in the middle. So you know, it depends on how much time you want to waddle around mortality but...

Commissioner Keon: But we have seen where the rate of return on investments has not been.

Mr. Tierney: Yeah. To me, it's very more important to focus on investments. And the debate is going to be how much future improvement that hasn't happened yet, if you want to bake in in advance. That's the only issue on mortality table. And you know, my opinion is that, you know, let the actuaries debate it and let the Pension Board decide; and, you know, the difference between the bills are not going to be that great.

Commissioner Keon: Right.

Mr. Tierney: You can anticipate this mortality every year, and you get to the end, it's just a different way, so one of those two is going to happen anyway.

Commissioner Keon: Okay. So it's really the rate of return. In your presentation, did you say that the state is going to require it?

Mr. Tierney: Not a requirement. They've been writing letters and basically telling people they need to revisit it because like your plan hasn't been equal to the assumptions and what are they going to do about it?

Commissioner Keon: So it's recommended, not required?

Mr. Nadol: No, there's no.

Mayor Cason: I've always thought that the Pension Board's done a really good job in managing the assets. Looking out over the last five years, they haven't taken undue risks; they've been very good in terms of the balance; they haven't chased returns and speculated, so I think that side expect good decisions by the Pension Board on how to invest, and our Investment Committee. Looks like there's certain things the City could do. There's certain things the Pension Board could do, and eventually, we'll get together with the Pension Board and discuss what are you going to do and what are we going to do. I mean, I can see that one option is for us make voluntary extra contributions out of the general fund toward this, that's another way, whether it's a one-time one or whether it's every year a little bit more going in. There's some assumption changes in the timing of how much of a blow you do in one time, or do you ease into it in moving the assumption, the interest rates perhaps down or moving into some of the other changes and the other assumptions. So this has been very helpful, seeing there's silver bullets out there, no miracle solutions. A lot of this is already obligations, water under the bridge; nothing we can do about it. We just have to figure out how we can most responsibly address it. So I found this extremely useful.

Vice Mayor Kerdyk: Right.

Commissioner Keon: Me too. Thank you.

Mayor Cason: I think we'll have some more and we'll invite then input from the unions and from the Pension Board about their thoughts. Anybody else have any questions or...?

Commissioner Keon: No.

Vice Mayor Kerdyk: Nothing.

Mayor Cason: Thank you very much.

Commissioner Lago: Thank you very much.

[End: 11:03:00 a.m.]