

City of Coral Gables City Commission Meeting
Agenda Item H-2
October 27, 2015
City Commission Chambers
405 Biltmore Way, Coral Gables, FL

City Commission

Mayor Jim Cason
Commissioner Pat Keon
Commissioner Vince Lago
Vice Mayor Frank Quesada
Commissioner Jeannett Slesnick

City Staff

City Manager, Cathy Swanson-Rivenbark
City Attorney, Craig E. Leen
City Clerk, Walter J. Foeman
Deputy City Clerk, Billy Urquia
Finance Director, Diana Gomez

Public Speaker(s)

Agenda Item H-2 [Start: 10:58:40 a.m.]

A Resolution setting policy for the accelerated pay down of the Coral Gables Retirement System Unfunded Liability.

Mayor Cason: Let's move to Item H-2.

Ms. Gomez: This item is to set a formal policy on the funding of, additional funding to the unfunded liability of the pension. A workshop was held with the City Commission on February 13, 2015 to discuss methodologies to reduce the City of Coral Gables Retirement System Unfunded Liability. It was determined that the most fiscally responsible method was to pay down the program whereby the City would budget sufficient funds to make annual payments in the amount higher than the annual required contribution. The Commission unanimously agreed to move forward with these additional payments in order to accelerate the pay down of the

unfunded liability and improve the overall funded status of the retirement system. Currently, without making any additional payments the unfunded liabilities projected to be paid down in 25 years as current pension assumptions are met. Staff is recommending that the City budget is constant, annual pension payment equal to the amount that was budgeted in fiscal year 15, which was approximately \$26 million and a climate consumer price index to that every year where applicable; and then the difference between the annual required contribution and the annual pension budget amount will make up the difference of the additional payment each year. The additional annual payment will be made each October 1st in order to take full advantage of the interest, as opposed to waiting till the end of the year. Actuarial Concepts which is the City's Actuary for pension related matters has estimated that if the additional payments are made in this manner the unfunded liability will be fully paid off in approximately 17 years instead of 25.

Mayor Cason: That's great.

Ms. Gomez: And so this is based on, obviously what happens with the actuarial assumptions and it must be noted that the final pay down time can change in either direction.

Mayor Cason: You have any idea on, in terms of the required contribution now and what we are putting in above it, how much longer, is that probably the smoothing or...

Ms. Gomez: No. So the annual required contribution, whatever that may be, this past year was about 23.8, I think it was...

Commissioner Lago: That includes unfunded and our obligation for that year.

Ms. Gomez: Yes – and the normal cost, as well as the changes that the Commission adopted to bring the Teamsters employees down to 15 percent because we have to pay extra for that as well, and we were still able to send a \$2.2 million extra payment to the pension plan in the current with the fiscal 16 budget. Last year there was \$1.8 million of the excess that we sent over, so we just sent over \$4 million just recently to the pension system.

Mayor Cason: What impact does this have on the ongoing discussion of changing some of the assumptions, including the interest rate, is this in lieu of that or is this postponing that or can they come back and say, we want to change the assumption which puts us over \$26 million?

Ms. Gomez: When we made this payment we had asked, in making the payment we had asked that we make the payments and apply it to certain bases in order to have the City take full advantage of the extra payments. The Retirement Board agreed with our methodology and they passed a resolution in order to pay it down that way. There was some discussion about we are not just changing the assumptions to make the payment \$26 million and so we did not go in that direction because obviously there are things that are going to happen naturally that are going to maybe make one year a little more expensive than the other because interest rates assumptions were not met. So if we make the base of the \$26 million and when we have those bad years for interest purposes, it will make the payment even higher, so everybody understood that the best way to handle this is to keep the assumptions the way they are and continue to make payments. Now there are certain assumptions that the Pension Board is planning to look at. There are certain things like the mortality table that we just finished updating and we are going to need to change it again when the FRS changes, when the rules come down that says, we have to adopt the FRS. So there are assumptions that are going to change and it is beneficial to everyone to look at them every several years and make sure that they are realistic, because if they are not then we are never going to get there. So yes, the Pension Board can make those assumption changes that is within their authority to do so, but we have been discussing that we need to not make those two quickly or...

Mayor Cason: Because a lot of what those changes would have done we've just done by throwing in some extra money into the hat.

Ms. Gomez: So it will eat up some of that. The advantage of us making the extra payments would be eaten up by the extra...

Commissioner Keon: The change in the assumptions.

Ms. Gomez: Exactly. So we want to try to get the most benefit putting that money into the principle, its like a mortgage, you put an extra payment in, you are going to get it paid off quicker. If you keep on refinancing or you taking more out you are not going to get there.

Commissioner Lago: I just wanted to mention and get your opinion and just your statement. This is the first time any Commission has ever taken this step and I think this is a very crucial step. I've spoken to a lot of the employees who are dedicated to the City and a lot of them understand that they are paying a significant contribution. A lot of them are paying a lot of money for their retirement and they understand that this belt-tightening, as I put it, is only going to benefit them, because what we are trying to do here is to basically, not only stop, but we are trying to pay down the unfunded liability which at one point was, what was the total amount?

Mayor Cason: \$245 million.

Ms. Gomez: \$245 million, we are around that.

Mayor Cason: At one point we were the second most indebted per capita if you want to look at it that way in all of Florida.

Commissioner Lago: I think we were like at \$11 million, right, was the unfunded?

Ms. Gomez: Oh, yes.

Commissioner Lago: What year was that?

Ms. Gomez: Going back about 10 to 12 years ago we were 100 percent funded.

Commissioner Lago: We were 100 percent funded 12 years ago.

Ms. Gomez: And then...

Commissioner Lago: And then basically we've gotten to where we are today. So to me, this is a step forward and a major step forward where this Commission in 90 years, we're the first Commission and with the help of staff and our City Manager and our City Attorney and the Clerk, we are making the steps to really solidify the employees' pension, their future.

Mayor Cason: The health of their retirement.

Commissioner Lago: The health of their retirement because I know that every time and I've talked to them, they said, we are contributing a lot. I go but we are in a situation where we have really limited options and we are doing certain things and we could spend that money on other things, but we made a decision to spend that money to benefit the employees and their futures.

Mayor Cason: I think this was one of the most important things that we've done in a long time. The biggest elephant that we have in the room is our pension liability. Now we are not alone. I know we have a great Retirement Board, they don't chase results, they are not speculating, they are doing a great job. A lot of what happens on this pension system depends on market returns, we understand that, but this is really important, but also its interesting now that under the new GASB rules that rating agencies begin including your pension problem. We saw with the discussion of Standard and Poor's, they said, they were out looking for triple A depending on what they do on their pensions.

Ms. Gomez: Exactly.

Mayor Cason: Now Moody gave us, presumably without even looking at this, but to the extent that continue to actively work with the Retirement Board, through our Collective Bargaining to reduce the unfunded liabilities that will make so much more money available for other projects for quality of life in the Gables. So I think going from 25 to 17 years is a tremendous...

Commissioner Lago: It's a sacrifice, it's a sacrifice, but at the end of the day its going to pay huge dividends and you can already tell. With the effort of your department and the City employees, we've been able to get our triple A rating back. I think the last time we had it was five years ago, correct me if I'm wrong.

Ms. Gomez: I have to look it up, but at least.

Commissioner Lago: Five years – that's a big, big coo for the City and I'm proud to say it. We should hang our hats high because its something that we worked very hard to get there and we have to give credit to staff for their incredible work.

Mayor Cason: Congratulations.

Ms. Gomez: Thank you.

Commissioner Keon: Yes, thank you; thank you to you and Keith and all of your staff for your work that you have done in advising us and working with us to solidify our financial position. Thank you very much.

Mayor Cason: When we look around at the financials, five years in a row we reduced the millage rate, reserves – restricted at 25 percent. If I'm not mistaken our total reserves are over \$100 million in all the pots.

Ms. Gomez: Yes.

Mayor Cason: We talk about \$37.4 million...25 percent

Ms. Gomez: That's just unrestricted.

Mayor Cason: But then we have \$70-\$80 million more for sewers or anything else, so lowering taxes, getting our triple A bond rating, reducing our pension liability, strengthening the health, reducing the cost that we just had in the other motion, I think we are in terrific shape compared to other cities.

Commissioner Lago: While making significant investments in our infrastructure – Miracle Mile, sidewalks, tree planting, it's a lot to do. Again, congratulations.

Commissioner Keon: Great job.

Mayor Cason: All starts with great financing. Congratulations.

Commissioner Keon: Great job.

Commissioner Slesnick: Thank you – congratulations. It really helps that our economy has improved so much in the last five years and I just want to mention that we need to keep paying down the pension liability and so forth while our economy is in a really positive mode, because

there will come a time when we'll slow down a little bit. So thank you very much for – I mean I'm really proud of our City for looking into this and for reducing the liability so much.

Ms. Gomez: Yes – and the way that we are paying it down it will help us in the long, to your point, it will help the individual employees because as the required contributions start to come down then the individual's cost-sharing portion will go down for the general employees, so that is very key.

Commissioner Lago: It's a mutual benefit.

Ms. Gomez: It gives us a lot more flexibility moving forward. So this is just the formal policy by resolution to show the rating agencies, for instance, that we are taking it seriously, to show everybody that we are taking it seriously and we are documenting our policies and this is what we plan to do each year moving forward.

Mayor Cason: And could you check around the state and see if any other municipalities recently got triple A bond rating because we were all downgraded after 2008 because of the economy, but I would bet there are not too many triple A's and maybe little small towns, but it would be nice to know where we stand.

Commissioner Slesnick: It would be great to know.

Commissioner Lago: I'll make a motion.

Commissioner Slesnick: Second.

Mayor Cason: Commissioner Lago made the motion, Commissioner Slesnick seconds. City Clerk.

Commissioner Slesnick: Yes

Commissioner Keon: Yes

Commissioner Lago: Yes

Vice Mayor Quesada: Yes

Mayor Cason: Yes

(Vote: 5-0)

Mayor Cason: Thank you again.

[End: 11:10:02 a.m.]