

Regular Workshop – February 18, 2014
Agenda Item 20

Agenda Item: Pension Discussion

Presenter: Town Manager and Staff

Summary: The Town Manager will provide an update on the status of the pension issues.

Attachments: 2-12-14 Memo, Town Manager to Town Commission;
PowerPoint Presentation.

Recommended
Action: None, informational only.

M E M O R A N D U M

Date: February 12, 2014

TO: Town Commission

FROM: Dave Bullock, Town Manager

SUBJECT: Pension Discussion

Fiscal Year 2014 was a year of significant change for the Town Pension programs. Based on correspondence from the State of Florida Department of Management Services, Bureau of Local Retirement Systems, the Fire and General Employees' pension Impact Statements have been determined to be State accepted contingent on a reduction in the assumed rate of return commencing with the October 1, 2013, valuation.

Foster and Foster Representative Doug Lozen, the Boards' Actuary, has prepared several impact scenarios for various rates of return. Within the next 30 to 60 days, Pension Boards will be making important decisions on the rate of return assumptions which will cumulatively have an impact on Town budgets and perhaps tax rates.

The staff will provide material and information related to the potential rate of return changes and possible impacts on the Town budget. We have just received the last actuarial information and are unable to provide the analysis in advance of the workshop.



PENSION DISCUSSION AND RATE OF RETURN ASSUMPTION CHANGES

**TOWN COMMISSION WORKSHOP
FEBRUARY 18, 2014**



PENSION UPDATE

General Employees-Plan frozen September 30, 2013

Firefighters-Plan frozen September 30, 2013

Police-Plan frozen February 1, 2014



PENSION REPORTING PROCESS

- Impact Statement Required at Time of Freeze
- Impact Statement included Rate of Returns (Fire 8.00%; General Employees 7.75%; Police 7.5%)
- Annual Valuation reports each Oct 1st
 - Describes Financial State of the Pension
 - Describes actuarial assumptions used, including Rate of Return
 - Sets Annual Required Contribution (ARC)
 - Calculates Unfunded Liability

Where are we today?	General Employees	Fire	Police
Impact Statement	✓	✓	✓
Valuation Report 10/1/13	✓	DRAFT	DRAFT
Rate of Return used	7%	8%	7.5%



PENSION UPDATE

- **State Division of Retirement accepted all impact statements contingent on a reduction in the assumed rate of return commencing with the Oct. 1, 2013 Valuation.**
- **Rate of return is subject to approval by the State.**



PENSION UPDATE

- **The State has verbally indicated that 7% is the acceptable rate of return for a frozen plan. Nothing in writing.**
- **Town actuary believes any valuation report submitted at the old rate of return will be rejected.**



PENSION UPDATE

- **If State rejects the report, we must respond to the Division of Retirement, with opportunity for discussion.**
- **If an agreement can not be reached, State has the option of holding back State revenue and a hearing can be requested.**



PENSION UPDATE

- **The Annual Valuation Reports, once accepted by the Pension Board, must be submitted to the State within 60 days.**
- **A short-term action plan with interest rate laddering may be a viable option to consider submitting with the report.**



RATE OF RETURN ASSUMPTION

General Employees- 7% (Lowered from 7.75% on Jan 9)

Firefighters- 8.0% pending Board decision

Police- 7.5% pending Board decision



MARKET RATE OF RETURNS ACTUAL VS. ASSUMED

General Employees	Actual Rate	Assumed Rate
9/30/2013	10.30%	7.75%
9/30/2012	13.98%	8.00%
9/30/2011	-1.60%	8.00%
9/30/2010	4.57%	8.00%
Annualized	6.65%	8.00%

Fire	Actual Rate	Assumed Rate
9/30/2013	10.62%	8.00%
9/30/2012	12.28%	8.00%
9/30/2011	-0.62%	8.00%
9/30/2010	6.60%	8.00%
Annualized	7.10%	8.00%

Police	Actual Rate	Assumed Rate
9/30/2013	13.20%	7.50%
9/30/2012	15.41%	7.50%
9/30/2011	2.39%	8.00%
9/30/2010	6.78%	8.00%
Annualized	9.32%	8.00%



PENSION UPDATE CONT.

- **Each Pension Board is responsible for setting the Assumed Rate of Return.**
- **Town is responsible for funding the Annual Required Contribution (ARC) based on that Assumed Rate of Return.**



PENSION UPDATE CONT.

What should be the Long term Plan for Rate of Return Assumptions?

- **Glide Path**
- **Cliff**

Things to Consider:

Budget Impact

Tax rates

Service Levels



IMPACT OF BUDGETARY CHANGE IN ANNUAL REQUIRED CONTRIBUTION(ARC)

Investment Return Assumption Analysis

Impact on Budget FY 2015

	8%	7.75%	7.50%	7.00%	6.50%
Fire	current	\$ 173,824	\$ 235,069	\$ 364,431	\$ 500,681
General Employees ¹	n/a	prior	\$ 57,778	\$ 104,810	\$ 187,818
Police	n/a	n/a	current	\$ 31,322	\$ 76,410
TOTAL	\$ -	\$ 173,824	\$ 292,847	\$ 500,563	\$ 764,909
Mill Rate Impact	n/a	n/a	0.06	0.11	0.17
Tax Rate Increase			3.1%	5.3%	8.1%

1 - The General Employees Pension Board voted to lower their rate of return from 7.75% to 7.0% at their Jan 9, 2014 meeting, which equated to a \$104,810 increase.

Value of 1 mill = \$4,554,013 (\$4,699,704 less 3.1% discount)



IMPACT OF BUDGETARY CHANGE IN ANNUAL REQUIRED CONTRIBUTION(ARC)

BUDGETARY ANNUAL REQUIRED CONTRIBUTION			
	10/1/12 Val FY 2014	10/1/13 Val FY 2015	INCREASE
Police	\$ 633,590	\$ 664,912 7.00%	\$ 31,322
Fire	\$ 1,526,725	\$ 1,891,156 7.00%	\$ 364,431
General Employees	\$ 599,705	\$ 704,515 7.00%	\$ 104,810
TOTAL	\$ 2,760,020	\$ 3,260,583	\$ 500,563
Mill Rate Increase			0.11
Tax Impact			5.3%

The above mill rate increase reflects the incremental change in ARC in addition to the rate of return change.



UPCOMING BUDGET CHALLENGES

- **Fund Balance Policy – 13 days off target**
- **Revenue shortfalls anticipated in 13-14 Budget:**
 - **Adjust ad valorem discount rate from 3.1% to 3.5%**
 - **Franchise Fees**
 - **Interest Income**
 - **Zoning & Fire Inspection Fees**
 - **Fines & Forfeitures**



UPCOMING BUDGET CHALLENGES

- **Expenditure Adjustments:**
 - **Infrastructure funds are depleted for Public Safety Vehicles**
 - **Finance software**
 - **Other Capital Costs**
 - **Town Planning - Town Center and Code Changes**
 - **Cost of living wage increases**
 - **Pension**



UPCOMING BUDGET CHALLENGES

Upcoming Budget Challenges				Total Value in
	<u>FY12-13</u>	<u>FY13-14</u>	<u>FY14-15</u>	<u>Tax Dollars</u>
<u><i>Fund Balance</i></u>				
Fund Balance Policy - FY 13 off target by 13 days	(527,634)			\$ (527,634)
Increase in Millage FY14 adds to surplus		210,075		210,075
<i>Fund Balance Shortfalls</i>				(317,559)
<u><i>Revenue Adjustments</i></u>				
Ad Valorem Tax-change in budget		(39,000)		(39,000)
Franchise Fees- change in budget		(93,000)	(93,000)	(186,000)
Interest Income		(50,000)	(50,000)	(100,000)
Zoning Fees		(15,000)	-	(15,000)
Fire Inspection Fees		(27,000)	(27,000)	(54,000)
Fines & Forfeitures		(26,000)	(26,000)	(52,000)
<i>Revenue Shortfalls</i>				(446,000)



BUDGET CHALLENGES CONT.

Upcoming Budget Challenges	Total Value in	
	<u>FY14-15</u>	<u>Tax Dollars</u>
<i><u>Expense Adjustments</u></i>		
Infrastructure funds are depleted for Police vehicles	(106,000)	(106,000)
Finance Software	(250,000)	(250,000)
Other capital costs	(200,000)	(200,000)
Town Planning - Town Center	(20,000)	(20,000)
Town Planning - Land Use Code changes	(100,000)	(100,000)
Cost of living wage increases	(185,000)	(185,000)
<i>Increase in Expenditures</i>		<i>(861,000)</i>
Total Budgetary Challenges Before Pension		(1,624,559)
Pension Increases using 7% rate of return assumption		(500,563)
Total		(2,125,122)
Value of current mill		\$ 4,535,214
Total Value in Mills		0.4686



Using Rate of Return at 7%

UPCOMING BUDGET CHALLENGES

	2014 Budget	2014 Projected Actual	Ad Valorem Values + 1% 2015 Projected	Ad Valorem Values + 2% 2015 Projected	Ad Valorem Values + 3% 2015 Projected	Ad Valorem Values + 4% 2015 Projected
Beginning Fund Balance	3,116,520	3,116,520	2,962,993	2,962,993	2,962,993	2,962,993
Revenues						
Ad Valorem Revenues	9,454,727	9,415,105	9,509,257	9,643,214	9,737,756	9,832,297
Other Revenues	5,594,459	5,383,460	5,185,181	5,211,857	5,238,799	5,266,012
Total Revenues	15,049,186	14,798,565	14,694,437	14,855,071	14,976,555	15,098,309
Total Expenditures Non-Pension	<u>12,192,072</u>	<u>12,192,072</u>	<u>12,979,452</u>	<u>12,979,452</u>	<u>12,979,452</u>	<u>12,979,452</u>
General Pension	648,521	599,705	704,515	704,515	704,515	704,515
Police Pension	658,035	633,590	664,912	664,912	664,912	664,912
Fire Pension	<u>1,340,483</u>	<u>1,526,725</u>	<u>1,891,156</u>	<u>1,891,156</u>	<u>1,891,156</u>	<u>1,891,156</u>
Total Pension Expenditures	2,647,039	2,760,020	3,260,583	3,260,583	3,260,583	3,260,583
Grand Total Expenditures	14,839,111	14,952,092	16,240,035	16,240,035	16,240,035	16,240,035
Ending Fund Balance increase/(decrease)	3,326,595	2,962,993 (363,602)	1,417,396 (1,545,597)	1,578,029 (1,384,964)	1,699,513 (1,263,480)	1,821,267 (1,141,726)
# operating days	82	72	32	35	38	41
Additional Millage Required for 90 Days			0.5648	0.5223	0.4914	0.4609
Total Millage needed for 90 days			2.6408	2.5983	2.5674	2.5369