

MEMORANDUM

TO: Finance and Administration Committee of City Council

FROM: Jeremy Craig, Director of Finance and Administration

DATE: January 26, 2005

SUBJECT: FINANCE AND ADMINISTRATION COMMITTEE MEETING

The Finance and Administration Committee met Wednesday, January 26, 2005. Those in attendance included: Chairperson Mary Brown, Ward IV, Councilmember Jane Durrell, Ward I, Councilmember Bruce Geiger, Ward II, Councilmember Mike Casey, Ward III, Director of Finance and Administration Jeremy Craig, and City Administrator Mike Herring. Also in attendance were Beth Grellner and John McCann of CBIZ, and Executive Secretary Caroline McDowell. The meeting was called to order by Chairperson Brown at 5:20 p.m.

1. Approval of Minutes—December 20, 2004

Councilmember Geiger moved to approve the minutes from December 20, 2004 and Councilmember Durrell seconded. The minutes were approved 4-0.

2. Discussion/Review of Retirement Committee Recommendations

Mr. Craig summarized his January 21, 2005 memo, pointing out that it displayed no major changes to previous memos but presented a clearer summary. The retirement study included: a fiduciary review that highlighted the City is able to find a better plan and provider, especially through a Request For Proposal (RFP) process conducted by CBIZ; a comparative study that highlighted only two major differences between Chesterfield and comparative cities—vesting schedules and normal retirement age; and recommendations for possible enhancements, which highlighted that employees' main concern is properly managing their money and having adequate funds by retirement age.

The first recommendation from the Retirement Committee was to provide a 4% guarantee option over the lifetime of an employee's portfolio until retirement. This option must be chosen by the employee ten years before retirement and upon doing so, the employee turns over his portfolio to a professional manager. If the employee retires before the ten-year allotment, he forfeits the 4% guarantee and takes his portfolio as-is.

Councilmember Geiger was concerned that by promising 4%, the City will incur the related risk and the plan will not be cost-neutral; however, if the professional manager takes the safest route available to earn the 4%, promising no more than the minimal return, the City will never incur the risk. Mr. Herring pointed out that with a percentage guarantee, there is always risk. However, with the time allotted, the minimum standard will be able to be met and any gaps will also be covered by employee forfeitures (from employees who leave the City before they are fully-vested). Ms. Grellner added that upon choosing a new provider whose statements are clear and understandable, employees will know how to value their portfolios, realize that they are earning more than 4% and most will not choose that option because they are faring well without professional management.

Councilmember Casey asked what results would ensue if an employee opts for the 4% guarantee, but his portfolio is already down by 20%. Mr. Craig answered that during the five-year phase-in, the 4% guarantee applies only to the current balance at the time when the portfolio is turned over. Additionally, the City would insure against that scenario by limiting the funds in which an employee can invest.

The second recommendation from the Retirement Committee was to provide a 1% defined benefit option with a 15-year payout. During those 15 years, the portfolio would be continuously managed by the City and at the end of the time period, the employee would receive a cash payout. An employee who opts for this benefit and retires early will received the benefit at a discounted amount.

Councilmember Geiger questioned why the City wouldn't just offer annuities. Mr. McCann answered that the employee would earn an average interest rate of 6% with the defined benefit option, better than the interest rate on an annuity.

On the recommendations that the vesting schedule be changed from a 7-year tier to a 5-year cliff, the normal retirement age be changed from 65 to 60, and the early retirement age be changed from 60 to 55, the Committee was in agreement that these recommendations should be endorsed. Chairperson Brown questioned how the discussed options would affect employees at or within five years of retirement age; the ten-year time frame with the 4% guarantee would automatically exclude them. Mr. McCann explained that the guarantees will apply on 5-year returns.

In consideration of having CBIZ perform an RFP, Mr. Herring said that before doing so, the plan structure needs to be defined. Mr. McCann added that in having that information, bidders can more accurately estimate the costs involved. The bottom line of the study revealed that the RFP is necessary because better plans are available, but the 4% guarantee and 1% defined benefits options do not necessarily have to be part of the plan structure.

Councilmember Durrell felt that overall, the meeting was more like a work session and would like more time to discuss and better understand these options before moving on them and the RFP process. Councilmember Geiger agreed. Councilmember Casey said that he is comfortable in supporting the retirement study recommendations, but that the whole Committee needs to support them when they go to Council. Councilmembers Durrell and Geiger will meet with CBIZ prior to the next F&A Committee meeting.

3. Proposed Revision of Five-Year Forecast

The Five-Year Forecast revisions reflect the passage of Proposition P. Mr. Herring summarized his memo, previously forwarded to the entire City Council, within which he recommended that, as had been done for the FY2005 Budget, the \$400,000 previously earmarked as a transfer from the General Fund to the Parks Fund be redirected to the Capital Street/Sidewalk Construction Fund. Councilmember Geiger motioned to amend the Five-Year Forecast for all remaining years within the current forecast period to reflect a transfer of \$400,000 from the General Fund to Capital Streets/Sidewalk Fund instead of Parks. Councilmember Casey seconded. The motion was approved 4-0.

4. Recommendation of Public Works/Parks Committee Re: Use of Fund Reserves

Previously, the Public Works/Parks Committee recommended transferring \$500,000 from Fund Reserves to Capital Improvements for street projects. Mr. Herring broke down the R&S Fund allotment:

Projects	\$1.5 million
Debt Service	\$2.1 million
Old Baxter	\$500,000
Stormwater/Sidewalks	\$100,000
TOTAL	\$4.2 million

In addition this year, \$500,000 will be available from the budget surplus and \$350,000 will be available from the Pathway on the Parkway surplus. In subsequent years, the completion of Old Baxter, the transfer of \$400,000/year as noted above, and having refinanced the existing R&S debt will make available more than \$2.5 million for capital street/sidewalk projects each year. Although Fund Reserves exceed the 40% cushion and \$500,000 is readily available from it, Mr. Geisel said that \$500,000 more during FY2005 from Fund Reserves would be more than he can handle without hiring additional personnel to manage the projects. Councilmember Geiger believes Fund Reserves should be used for one-time expenditures to benefit the City, not for on-going expenses such as salaries. Mr. Herring also noted that Mr. Geisel has assured him that the City's streets are structurally sound and do not, at present, require any significant influx of additional dollars above and beyond those noted above.

Councilmember Casey's main concern was the issue of asphalt patching and the citizen complaints generated from that practice. Mr. Herring noted that, given the \$500,000 already allocated this year from surplus funds for capital streets/sidewalks projects, Mr. Geisel confirmed he would not need to use asphalt to the extent necessary during 2004.

Chairperson Brown motioned NOT to support the Public Works/Parks Committee recommendation to transfer \$500,000 from Fund Reserves to Capital Improvements for street projects and Councilmember Geiger seconded. The motion was approved 3-1; Councilmember Casey opposed.

Mr. Herring reminded that Committee that as part of the process of adopting the FY2005 Budget, Public Works volunteered to defer approximately \$285,000 for capital equipment replacement. Mr. Herring asked the Committee to consider recommending the appropriation of funds from Fund Reserves for this purpose during 2005. If approved by City Council, the appropriation would enable the Public Works vehicle replacement process to get back on schedule. Councilmember Geiger again expressed his support for the use of Fund Reserves for this purpose.

Councilmember Casey motioned to recommend the transfer of \$300,000 from Fund Reserves to Capital Improvements for deferred Public Works equipment purchases and Councilmember Geiger seconded. The motion was approved 3-1; Councilmember Durrell opposed.

Chairperson Brown, with the support of the other Committee members, directed Mr. Herring to forward the above two motions to the Public Works/Parks Committee for their consideration and review. After Public Works/Parks has had the opportunity to review both, the F&A Committee directed that both motions be placed on the City Council agenda immediately following the Public Works/Parks meeting.

5. Other Items

No other items were discussed.

The F&A Committee will meet to discuss the Chesterfield Community Development Corporation (CCDC) and economic development at 5 p.m. on Tuesday, February 15, 2005. A meeting to continue discussion on the Retirement Committee recommendations is scheduled at 8 a.m. on Tuesday, February 22, 2005.

Chairperson Brown adjourned the meeting at 8:10 p.m.