MEMORANDUM

TO: Finance and Administration Committee of City Council

FROM: Jeremy Craig, Director of Finance and Administration

DATE: December 20, 2004

SUBJECT: **FINANCE AND ADMINISTRATION COMMITTEE MEETING**

The Finance and Administration Committee met Monday, December 20, 2004. 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 Michelle Bock of Piper Jaffray, Beth Grellner, John Kretzner and John McCann of CBIZ, Citizen Sean Smith, Councilmember Connie Fults, Ward IV, and Executive Secretary Caroline McDowell. The meeting was called to order by Chairperson Brown at 7:05 p.m.

1. Approval of Minutes—October 5, 2004 and December 6, 2004

Councilmember Geiger moved to approve the minutes from October 5, 2004 and December 6, 2004 and Councilmember Casey seconded. The minutes were approved 4-0.

2. Debt Financing for Proposition P

Mr. Craig summarized the scenario for the Parks tax in that the ½ cent will be divided into ¼ cent for operations and ¼ for land purchases through bonded debt. With a $29 million bond issue, the project fund will be $25.8 million and the coverage factor reflects 125% of the bond issue. After each yearly payment, an overflow of $300,000-400,000 in cash will be available to be spent how Council deems worthy.

Mr. Herring pointed out that the ¼ cent Parks sales tax not designated for operations was designated to be bonded out (for an estimated $23.5 million) and the proceeds allocated into $11.75 million for capital improvements and $11.75 million for land purchases. However, due to favorable market conditions, the City is able to generate the $25.8 million or $2.3 million more than anticipated. Mr. Herring noted this amount could be used to offset the $2.3 million Council had designated to be used from the General Fund balance, if needed, for land purchases. He also pointed out that the entire amount must be used over a three-year period, and Mike Geisel, Director of Public Works, feels comfortable that his current department staffing would allow him to accommodate $11.75 million in capital construction spending in the three-year timeframe.

Councilmember Casey questioned how a surety bond would compare to a debt service reserve fund bond. Ms. Bock explained that a surety bond replaces the need for a debt service reserve account and would reduce the amount of money that needed to be borrowed; however, if interest rates over the long-term were more than the debt service, a debt service reserve fund would be more cost-efficient. The surety bond would cost 3% of the reserve fund requirement, or roughly $70,000, which is a one-time non-refundable fee. Mr. Craig indicated the City would not know if it could use a surety until just prior to the actual issue and staff would bring a recommendation at that time based upon any cost savings a surety may offer.

Councilmember Geiger suggested that since the bonds will yield up to $25.85 million in proceeds, the additional $2.3 million could all be allocated for land acquisition. As a result, $11.75 million would still be available for capital improvement projects (new facilities) and $14.1 million would then be available for land acquisition. If so, the City Council commitment to spend as much as

$14.1 million on land could then be met *without* the use of Fund Reserves. Mr. Herring pointed out that current revenue projections indicate the ¼ cent sales tax could generate as much as $300-400,000 per year more than would be needed for debt service. Additionally, until the new facilities are constructed and made fully operational and staffing levels are increased to service those new facilities, the ¼ cent sales tax dedicated for operations/maintenance could generate as much as $500-600,000 per year more than is needed. Those funds would be unallocated and could be used on a pay-as-you-go basis for additional capital improvement projects or to purchase additional land. If and how to spend those additional dollars would be a decision of City Council. The bottom line is that it now appears the City is going to exceed each of the commitments made during the campaign for the passage of Proposition P.

Councilmember Geiger was concerned about any penalties or fees that the City would incur if the funds were not spent in the time period. Ms. Bock said that the City would sign a "closing document", which indicates the City's understanding and compliance with the term of spending all funds within the three-year period. There are no set fines or penalties, or loss of tax exemption status; it would be more like a slap on the wrist. Ms. Bock also assured the committee that the bonds are investment grade and should be grade AA2 and may be AAA if bond insurance is purchased. In respect to Moody's review of the City and its bond line, the rating can only be upgraded.

Chairperson Brown motioned to recommend to Council the issuance of the $29.2 million bond issue which will yield $25.8 million for land and capital purchases. The motion passed 4-0. Councilmember Casey asked that the recommendation be prepared for the staff and their response be forwarded to Council for the January meeting (see Bill #2329).

3. Debt Refunding of R&S I and II

Mr. Craig summarized that the City has two general obligation refunding bonds for streets. In 2005, one refunding bond may be issued to replace both general obligation bonds. This issue would require $432,000, expended at the time of issue from General Fund reserves, but would save the City approximately $135,000 per year over the life of the new bond–11 years. That would add up to an overall savings of over $1 million over the life of the debt and presents a present value savings of over $580,000 in total or 3.27%.

Councilmember Durrell questioned why $500,000 was allocated to street repairs when it could have been used for this refinancing without depleting the fund reserves. Mr. Herring explained that the $500,000 for streets was surplus money within the 2005 budget and this refunding proposal was discovered and discussed after the budget process was complete. Chairperson Brown and Councilmember Casey agreed that if the money is available and will save more money over the long-run, it is worthwhile. Councilmember Durrell stated that she agrees in theory but will have difficulty explaining it to Chesterfield citizens since the shortfall has been eliminated, yet these funds will still need to come from the reserves. Ms. Bock noted that from a financial advisors perspective, it is a fiscally responsible way to spend fund reserves and reduce debt service; both will save the City money.

Chairperson Brown motioned to recommend to Council the refinancing of Debt Refunding of R&S I and II, and the allocation of resources from fund reserves for the 2005 contribution. The motion passed 3-1. Councilmember Durrell opposed (Note: this refinancing will not be forwarded to City Council until the 1/19/05 City Council meeting.)

4. Recommendations from Retirement Committee

Mr. Craig and Ms. Grellner summarized that the study began in March 2004 for costs not to exceed $50,000. Council approved the scope which was to review competitiveness within the City's plan and market size in the context of the current 8% contribution rate. An employee group was formed

and an anonymous question box was made available for City employees. CBIZ did an excellent job of addressing every question and informing the employee group. In all, five recommendations were passed from CBIZ to the employee group to the Retirement Committee to the F&A Committee.

The first motion was that CBIZ perform a Request for Proposal (RFP) to recommend a provider for both the 401(a) and 457 programs. The RFP process would cost $3,000-5,000. Although the City has no requirement to seek RFP, it would be time and money well-spent because it will attract providers who were not part of the scope and who may offer more benefits and lower costs. In having CBIZ conduct the process, they will be able to apply their expertise to determine the best proposal. Chairperson Brown made the motion and Councilmember Geiger seconded. The motion passed 4-0.

The last four motions were discussed briefly without passage. The committee requested more time to study the memo from the Retirement Committee and a separate meeting for further discussion and a final vote. A meeting was scheduled for 5 p.m. on January 5, 2004.

The motions include:

- changing the vesting schedule from a 7-year step to a 5-year cliff
- lowering the normal retirement age from 59½ to 55
- instituting a 4% guarantee on each persons 401(a) account at retirement
- creating a 1% defined benefit floor to the current retirement plan that would allow an employee at normal retirement to return the 401(a) account and receive a 1% defined benefit pension payment.

Related concerns include:

- are the plans cost-neutral
- which plan carries a bigger risk
- how will the 4% guarantee be funded
- if two plans are offered, at what point in his tenure with the City can an employee choose the 4% guarantee
- if an employee turns over his portfolio to a professional manager, will there be a fee; if so, who pays
- if professional managers are available to provide greater returns, why is the City absorbing the 4%
- will the Council be recommending only one plan?

5. Other Items

Chairperson Brown raised the issue of surplus and reserve funds from the 2005 budget being assigned to street repairs. Mr. Herring said that Mr. Geisel would have enough projects over the year to utilize $500,000, but an extra $500,000 in the same year may prove to be difficult. It would require more personnel, and to properly plan for projects, he would like more than one year's time. A motion to extract funds from reserves for street repairs failed once in Council, but is being reintroduced by the Public Works and Parks Committee. Chairperson Brown suggested letting the issue go until Monday's Council meeting to see how it will progress.

An F&A Committee meeting to discuss CCDC and economic development was scheduled for 5 p.m. on January 26, 2005.

Chairperson Brown adjourned the meeting at 10:20 p.m.