



CITY OF GERMANTOWN TENNESSEE

1930 South Germantown Road • Germantown, Tennessee 38138-2815
Phone (901) 757-7200 Fax (901) 757-7292 www.germantown-tn.gov

FINANCIAL ADVISORY COMMISSION MINUTES

Tuesday, February 16, 2016, 6.00 p.m.
Economic & Community Development Blue Conference Room
1920 S. Germantown Road, Germantown, TN 38138

- Members Present:** Sudhir Agrawal, Hal Beckham, Clint Hardin, Mark Holland, Alderman Rocky Janda, Russell Johnson, Jason Lowe, Michael McLaughlin, Christine Menzel, Chris Miller, Frederick Miller, Julius Moody, Paul Mosteller, Michael New, David Rea, Brad Reardon, Alan Richmond, Donnie Rose, Harold Steinberg, Richard Vosburg, Brandon Westbrook, Scott Wickliffe
- Members Absent:** Walter Krug, Dale Stover
- Staff Present:** Patrick Lawton, Sherry Rowell, Adrienne Royals, De’Kisha Fondon and Linda Rathje
- Others Present:** Lauren Lowe—PFM, Inc.
Richard Ellis—Ellis Benefits
Frank Carney—Evans Petree
Bill Pickens and Bart Reid—Gerber Taylor
Stephanie Brockway—Germantown Education Foundation
Michael Stoll

CALL TO ORDER

Chairman Moody called the February 16th, 2016 Financial Advisory Commission meeting to order.

ESTABLISHMENT OF A QUORUM

Chairman Moody then called the roll and announced that a quorum was present.

GERMANTOWN EDUCATION FOUNDATION

Ms. Stephanie Brockway said that the foundation has been around ten years and for a year and a half have funded or raised money for the Municipal Schools. She explained that the City has partnered with the Education Foundation to form the “Fill the Fountain of Knowledge” which is a great and easy way to show support for education in Germantown. Due to this being the 10th anniversary, Ms. Brockway challenged the commission members to donate \$10 a month through easy and inexpensive ways via online or by completing an application

and submitting it with your utility payment. Ms. Brockway informed everyone about the 5K run which is to be held on April 24th, 2016 on Sunday afternoon. She advised that approximately 700 people have already signed up and that several thousand are expected to show up. The City will be shutting down Wolf River Boulevard from Kimbrough to Farmington Boulevard for this full spectrum event.

APPROVAL OF THE MINUTES

****MOTION****

Alderman Janda moved to approve the minutes from the January 12, 2016 Financial Advisory Commission meeting. Mr. Hardin seconded and the motion passed unanimously.

BOND ISSUE/CAPITAL IMPROVEMENT

Mr. Lawton announced that Standard & Poor's and Moody's did reaffirm the City's AAA bond rating. He stated once again that we never take this for granted; staff and administration, the budget and performance team have all been working very closely with PFM to answer questions and address issues from both rating agencies. Mr. Lawton said that he is pleased with where we are, as some amazing things were cited about the City and our credit worthiness. He advised that S&P referred to the City's "self-reliance" more so than the sovereignty of the United States government in that we get very little in direct Federal Funding to support all that we do here.

Mr. Lawton further advised that both series together is our largest bond issue ever. Monday, February 22nd is the bond sale; the two series include the refunding of about \$5.5 million and new money of approximately \$4 million for City capital projects (drainage and road work) and the largest amount, \$12 million is for the expansion at Riverdale Elementary School.

Ms. Lauren Lowe of PFM, Inc. explained for the new money projects, up to \$4 million could be borrowed and for the school bonds (b-bonds) it is \$12 million. The municipal bond market operates slightly different than many of the other markets that we have exposure to; there is often an original issued premium or discount and with rates being super low, investors can usually offer more. Investors do this because they get a stream of cash flows between and during their investments that are higher than market rates are today. So it is an entity that is actually paying more in the form of an interest than in the form of a principal. Ms. Lowe stated this is something that PFM monitors and goes through the process with the City; although planned, we don't know what the market conditions will be so it is recommended not to exceed \$4 and \$12 million. Ms. Lowe said looking at the market knowing where the City's credit rating comes in, we want to reserve the ability to issue up to the amount should it be the wishes of the City. She also stated that there is a very good chance that the City will get an original issued premium; the City can reduce the amount to be borrowed by the amount of that premium or we can borrow up to the allotted amount per State law.

After detailed discussion of two Series 2016B scenarios, it was determined that if the City funded \$11 million in projects, the principal will be less than the amount actually borrowed (\$9,255,000); the remaining balance will be covered by the original issued premium yet the interest will reflect a higher interest rate (Scenario 1). If the City borrowed up to the \$12 million per State law and kept all of the premium, the City would receive approximately \$3.2 million in additional funds with an annual cost of capital increase totaling \$175,000 or \$180,000 (Scenario 2).

****MOTION****

Mr. Hardin made a motion to borrow the maximum allowed amount of \$12 million with the option to keep the premium (\$10,095,000). Mr. Vosburg seconded and the motion was then voted on as follows:

Sudhir Agrawal-yes; Hal Beckham-yes; Clinton Hardin-yes; Mark Holland-yes; Alderman Rocky Janda-yes; Russell Johnson-no; Walter Krug-absent; Jason Lowe-yes; Michael McLaughlin-yes; Christine Menzel-yes; Chris Miller-yes; Frederick Miller-yes; Julius Moody-yes; Paul Mosteller-yes; Michael New-yes; David Rea-yes; Brad Reardon-no; Alan Richmond-yes; Donnie Rose-no; Harold Steinberg-yes; Dale Stover-absent; Richard Vosburg-yes; Brandon Westbrook-no; Scott Wickliffe-yes.

With an 18 to 4 vote, the motion passed. This recommendation will now go before the Board of Mayor and Aldermen for their approval.

Mr. Lawton then advised that the second piece to this is the Interfund Reimbursement Agreement. He explained that this is the document that will hold the school district responsible for repayment of the \$4 million over a 30 year period. In order to protect the City, we are covering everything that we can think of in this agreement. Per Mr. Lawton, the district will have to execute this before it goes in front of the Board of Mayor and Aldermen on Monday evening or else, there will not be a bond sale.

REVIEW OF FY17 PENSION PLAN

Pension Attorney, Frank Carney spoke about the structure of the City's pension plan. He advised that the "Defined Benefit" plan is a traditional plan that takes into consideration the years of service, final average pay and the percentage that the employer has agreed to pay every month. Employees that were hired after July 1, 2013 are not included in this plan, so it has therefore been frozen; new employees as of July 1, 2013 are now in the "Cash Balance" plan whereby they make a contribution and the City makes a contribution with a guaranteed interest rate on the contribution.

Mr. Richard Ellis (Actuary) explained that there are two ways to look at this. He said the benefits in the old defined benefit plan are guaranteed until an employee retires. Once this happens he has to project pay and service and other fund information. Another calculation includes comparing the market value assets to the value of what people would earn today. Mr. Ellis then advised that the City's FY17 Actuarially Determined Contribution (ADC) is \$2,104,627 with about 10.8% of the payroll for people in the plan. Mr. Lawton advised that this is the annual contribution in which the City has to make in December, 2016 to the plan.

Mr. Pickens stated that Gerber Taylor has been in business since 1990 however, they have been working with the City of Germantown since 1986 or 1987. He further stated that there are 17 employees that own the firm and also there are no outside shareholders. He advised that his group and the City's Retirement Plan Administration Commission (RPAC) meet every quarter to review and discuss the City's investments, returns and overall financial position. Mr. Pickens said that last year did not look so good in that the total portfolio was down by 2%. As of December, 2015, the General Fund totaled \$62.2 million. He further stated that the current target allocation looks significantly different from two to three years ago due to a more diversified portfolio. This was done by adding fund to fund hedge strategies that will hopefully add value over the long haul in excess of the bond market return. Also, every quarter an investment committee looks at a grid to determine what is attractive and what's unattractive; what has been consistently unattractive for a number of years is fixed income because of the low interest rates across the board. Per Mr. Pickens, whether rates rise, don't rise or stay the same, over longer periods of time can be difficult for pension funds and investors in general. Going forward, pension funds are going to be more

expensive and people will have to put more money in and also, expected returns will not be what they used to be in the 80's and 90's. Mr. Pickens said that his recommended prescription is to be cognizant of valuation concerns both in stock and bond markets; we also want to be "hedged" because we feel that overtime the hedge strategies can outperform the bonds with traditional benchmarks and equities. He also said that manager risk and market risk should be emphasized; because the markets are so expensive it makes good sense to have active management that will perform and add quality to the portfolios.

****MOTION****

Mr. Vosburg made a motion to recommend that the Actuarially Determined Contribution amount of \$2,104,627 will be put into the FY17 Budget. Mr. Hardin seconded and the motion passed unanimously.

ESTABLISHMENT OF UTILITY FUND SUB-COMMITTEE

Alderman Janda said in view of the City's Utility Fund there is a profit of approximately \$1 million. Also through December, 2015 there was a profit of \$2 million. For FY15, about \$200,000 was used on some capitalization projects. After what appears to be two years of profit in a row, Alderman Janda said that he would like for this body to once again take a look at the Utility Fund to see if there is some way to discount the City's water bill. With that, Donnie Rose, Clint Hardin, Russell Johnson and Julius Moody volunteered to serve on the Utility Fund Sub-Committee. Patrick advised that Bo Mills (Directory of Public Works) and Adrienne Royals would participate as well.

FINANCIAL POLICIES UPDATE

Mr. Lawton stated that there have been a number of policies that's been adopted through resolution by the Board of Mayor and Aldermen over the past three or so years. Although these are all approved and followed, staff realized this year that the overall set of financial policies is not in our budget. Mr. Lawton said the plan is to clean up the financial policies and then incorporate them with the various additions that have been made over the last two or three years. It is important that they all be plugged into one document so that they are truly a part of the overall financial policies that are contained within the budget.

STRATEGIC PLAN

Mr. Lawton reminded everyone that a year ago the Board of Mayor and Aldermen appointed a thirty member steering committee that was facilitated by City staff to write a vision and value statement to replace the 20/20 plan. He said the committee was indeed successful by coming up with the *Germantown Forward 2030* vision statement. The "vision" references the outstanding quality of life, a financially sound government, and top quality public safety here in Germantown. The listed "values" are all of those things that support the vision statement such as excellence in education, innovation, lifestyle opportunities and continuous improvement. Mr. Lawton further explained that a series of "key performance areas" was then developed. In achieving this vision we needed to identify some areas of importance to Germantown. After identifying nine key areas a town hall meeting was held at the Great Hall to seek volunteers to help further define and characterize these areas by serving on nine different task force committees. Following numerous meetings and much discussion, essentially an outline or summary detailing each task force's key performance area and a chart showing the objective, the action plan(s), time line and key performance indicators were prepared.

Mr. Johnson gave credit to and thanked his fellow Task Force Committee members. He said that all were tremendous in keeping a healthy discussion going. He also mentioned that there was a good diversity and representation of people and at times, spirited debates regarding some of the issues that were brought to the table.

Mr. Lawton advised that the Strategic Plan document was adopted by the Steering Committee on January 20th, 2016 and on January 29th there was an extensive work session with the Aldermen; it was presented to the Board of Mayor and Aldermen for adoption at the last board meeting.

LEADERSHIP GERMANTOWN CLASS PROJECT

Mr. McLaughlin stated that for the Leadership Germantown class project the fountain will be moving back to Saddle Creek; the exact location is to be determined. As of now, they are still working through the kinks however, it has been determined that it will be called the "Fountain of Youth." Mr. McLaughlin further stated that bricks with your name will be sold for \$75.00; corporate sponsorships are also being sold with the majority of funds collected being donated back to various education groups in the City. Also, money will be donated back to the General Fund to help support the operations of the fountain for the next three years.

Mr. Lawton thanked Mr. McLaughlin and his class for taking the initiative to do something important for our City. He said this is one more thing that separates our community from all of the others.

OTHER BUSINESS

Mr. Lawton reminded everyone that the next FAC meeting will be on March 8th. He said that civic support groups will be attending to talk about the civic support budget. Also, folks from the Germantown Community Theater will be making a presentation regarding expansion plans for the theater.

ADJOURNMENT

Chairman Moody adjourned the meeting at 7:50 p.m.