



CITY OF GERMANTOWN TENNESSEE

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FINANCIAL ADVISORY COMMISSION MINUTES

Tuesday, February 7, 2017— 6.00 p.m.
Economic & Community Development Blue Conference Room
1920 S. Germantown Road, Germantown, TN 38138

Members Present: Hal Beckham, Brian Carney, Blake Deaton, Clint Hardin, Ashley Hopper, Alderman Rocky Janda, Russell Johnson, Walter Krug, Jason Lowe, Michael McLaughlin, Christine Menzel, Chris Miller, Frederick Miller, Julius Moody, Paul Mosteller, David Rea, Alan Richmond, Donnie Rose, Harold Steinberg, Denise Stumph, Richard Vosburg, Brandon Westbrook, and Brian White

Members Absent: Scott Wickliffe

Staff Present: Patrick Lawton, Paul Turner, Alderman John Barzizza, Adrienne Royals, Sherry Rowell and De'Kisha Fondon

Others Present:

- Bill Pickens, Bart Reid and Steven Francomacaro of Gerber Taylor
- Frank Carney of Evans Petree
- Lauren Lowe and Nick Yatsula of PFM Financial Advisors, LLC

CALL TO ORDER

Co-Chairman Russell Johnson called the February 7th, 2017 Financial Advisory Commission meeting to order.

ESTABLISHMENT OF A QUORUM

Co-Chairman Johnson then called the roll and announced that a quorum was present.

APPROVAL OF THE MINUTES

****MOTION****

Mr. Hardin made a motion to approve the minutes as presented from the January 17th, 2017 Financial Advisory Commission meeting. Mr. Westbrook seconded and the motion passed unanimously.

DEBT CAPACITY OVERVIEW

Mr. Lawton explained to everyone that when the school system came on board approximately three years ago, the Board of Mayor and Aldermen (BMA) charged Administration along with this body the task of reviewing the City's Debt Capacity and to ultimately make recommendations back to the BMA of any changes and/or modifications. Adjustments were made and have been incorporated in the City's budget and the City's Financial Policy as well.

Because there is a strong possibility of us issuing debt this year for the construction of the new school, Mr. Lawton feels that it is necessary to review the debt ratios so the commission members will have a comfort level of what our overall capacity is, keeping in mind that there are other items to be addressed besides schools such as drainage, streets, etc.). He made a point of saying, just because we have the capacity does not mean that we have the resources currently, to pay for the new level of debt service for those improvements.

Mr. Nick Yatsula of PFM Financial Advisors, LLC advised that the City is rated Aaa by Moody's and AAA by S&P; the financial information and outcomes are based on the City's FY 2016 audit. The City of Germantown's Debt Management Policy Debt Metrics include:

- **Net Debt Service to General Fund Expenditures (12% cap)** – This is a measure of the debt service as a percent of the City's total operating expense—how much debt service can the General Fund support in any one fiscal year. The current level is 4%.
- **Direct Debt to Appraised Property Value (1.5% cap)** – This is the most restrictive policy limit in which there is a measure of the debt liability to the City's total appraised values for property taxes; the taxable assessed value within the City for both residential and commercial properties and the total amount of the City's Outstanding General Debt Obligation. The current level is 0.62%.
- **Direct Debt Per Capita (\$2,000 limit)** – a measure of debt liability to the City's population; amount of the City's Outstanding General Obligation Debt per resident. The current level is \$817.
- **Per Capita Debt to Per Capita Income (4% cap)** – a measure of the debt liability for the City's population as a percent to their annual income; the affordability of each individual person. The current level is 1.51%.

Ms. Lauren Lowe also of PFM made mention of two important details. 1) Moody's and S&P take into consideration the "appraised" value; going forward, the term "assessed" should be referenced as appraised value, which is also referred to as "full" property value; 2) the General Fund has evolved as the "everything governmental" fund; now it is considered to be the Total Governmental Fund which includes the General Fund, the Debt Service Fund and the School Purpose Fund.

REVIEW OF THE PENSION FUND

(A) Retirement Plan (Old Plan)

Mr. Frank Carney of Evans Petree quickly covered the two City pension plans—1) the Legacy Plan (old plan) which applies to all employees hired prior to July 1, 2013 and 2) the Defined Benefit /Cash Balance Plan which involves a formula that is used to calculate a specific retirement date and benefits for the employee. He also spoke on years of service, annual benefits, normal and early retirement, vested years (10) and actuarial accruals. Mr. Carney then explained retirement differences (i.e. age of eligibility, earlier retirement date) with Police and Fire employees as there is a complete set of rules that are different from the general employee.

Bart Reid of Gerber Taylor stated that it has been a very good year; he reported the following summary of the Retirement Trust as of January 31st, 2017:

- Year-to-date, the portfolio is up 8.3% outperforming the 65/35% mix of stocks and bonds.
- The City's Actuarial Assumption on a one year basis is up 14%.
- Long-term the portfolio has done well outperforming both the 65/35% mix of stocks and bonds and the Actuarial Assumption by 8.5%.
- On a dollar basis, the plan has generated \$5,086,999 fiscal year-to-date and \$8,307,245 on a one year basis bringing the total portfolio value to \$67,304,892.

A summary of cash flows since the 2/1/88 inception date for the Retirement Trust include:

Beginning Market Value	\$ 1,044,100
Net Cash Flow	\$16,956,575
Net Investment Change	<u>\$49,304,217</u>
Ending Market Value (as of 1/31/17)	\$67,304,892

Finance Director Paul Turner stated that he and the City's Actuary did an analysis on the different assumed rates of return with the current rate being 8%. Upon discussing with the Retirement Plan Administration Commission (RPAC), members questioned if this is a realistic rate going forward. Per Mr. Turner, it is not; there is an inverse relationship in assuming that we would make 8% as opposed to what the City would have to contribute. Money is earned through investments or through the City's contributions. As a result, 0.5% increments were considered to see what the impact would be on annual required contributions. Because these 0.5% variance amounts can be a bit traumatic, Mr. Turner recommended that the City takes this in "small doses" by reconvening and analyzing on an annual basis. It was unanimously decided that for now, we should look at 7.5% assumed rate of return and in a year from now, work with actuaries to compare the returns.

Other key points made include:

- The City's Actuarial Determined Contribution (ADC) for FY18 is \$2,926,340 as compared to FY17's ADC of \$2,104,637, gives us an increase of \$821,703 in annual required contributions.
- Germantown Forward 2030 Strategic Objective 3 states that financial sustainability is key and the **City will maintain an adequate pension funding level where the net pension liability and asset value will be 80% or greater.** Per Mr. Turner, in order to meet this 80% we cannot guarantee a return but we can determine how much the City will have to contribute.

(B) Defined Benefit Plan (New Plan) & (C) Other Post Employment Benefits

In conclusion, Mr. Turner advised currently, for the FY18 Defined Benefit Plan (New Plan), the annual required contribution for the City is \$163,644. He further advised that Other Post Employment Benefits (OPEB) is based on a two-year actuary as the last report was run in 2015; its annual required contribution is \$491,229. Mr. Turner also mentioned that the Governmental Accounting Standards Board (GASB) now requires that the Old Plan (DB Plan) as well as OPEB be put on the face of the financial statements to show liability.

OLD BUSINESS

Mr. Lawton recommended adding an additional meeting to the Budget Calendar to discuss the General Fund Revenues. The tentative date is February 21st, 2017.

****MOTION****

Mr. Mosteller made a motion to adjourn the meeting. Mr. Miller (Fred) seconded and the motion passed unanimously.

ADJOURNMENT

With that, the meeting was adjourned.