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City Council Work Session Minutes **Monday, March 14, 2016**
Defined Benefit Retirement **6:00 p.m., Conference Room**

Minutes are unofficial until approved by Council.
Council approved minutes as presented April 11, 2016.

1. **CALLED TO ORDER AND ROLL CALL:**
Mayor Peter Truax called the Work Session to order at 6:23 p.m.

CALL: COUNCIL PRESENT: Thomas Johnston, Council President; Richard Kidd; Victoria Lowe; Ronald Thompson; Malynda Wenzl; and Mayor Peter Truax. **COUNCIL ABSENT:** Elena Uhing, excused.

STAFF PRESENT: Jesse VanderZanden, City Manager; Paul Downey, Administrative Services Director; and Anna Ruggles, City Recorder.

2. **WORK SESSION: DEFINED BENEFIT RETIREMENT**
Downey and VanderZanden facilitated the work session, noting the purpose of the work session was to discuss the status of the City's Defined Benefit (DB) Retirement Plan, which includes 1) Defined Benefit Plan managed by the City; 2) Defined Contribution Plan managed through ICMA; and 3) Public Employees Retirement System (PERS); review Milliman's, City's actuary firm, recommended changes to the City's DB Plan; discuss the cost to fund the recommended changes; and discuss staff's recommendation to implement independent actuary's recommended changes to the actuarial assumptions for the City's DB Plan. Downey reported staff held a similar work session with Council on January 26, 2015, noting at that work session, staff was directed to schedule a follow-up work session with Council to provide an update on the City's retirement plan assumptions. Downey introduced Milliman's actuary representatives, Chris Jasperson and Lacey Engle, who were present, noting staff and the Actuary are presenting recommended changes centered around three areas as outlined in the staff report:

1. Change Mortality Assumptions for FY2016-17 – these changes would increase contributions to the Plan;
2. Change Valuation Interest Rate Assumption from 7.25 percent to 6.75 percent – this change would increase contributions to the Plan; and
3. Change Salary Scale Assumption from 4.5 percent to 3.75 percent annually – this change would decrease contributions to the Plan

Actuary comments as outlined in the staff report:

- Adopt the recommended assumptions, but step into the higher contribution levels over time, for example three to five years. This approach is similar to how the PERS Rate Collar currently limits the change in contribution rates for many PERS

employers.

- Adopt the recommended mortality assumption, but wait to lower the interest rate assumption. Then lower the interest rate assumption 0.25 percent per year until the recommended assumption is reached.
- Any deferral of contributions would result in relatively higher future contribution levels due to the time value of money.

Downey presented a PowerPoint presentation background overview on the City's DB Plan and referenced a table titled "Retirement Program Members in Plans as of October 1, 2015", noting the Plan includes 123 defined benefit members, 30 defined contribution full-time members, and 16 defined contribution part-time members; referenced a table titled "Budget Contributions FY2015-16", noting the total of Retirement Payments in the General Fund is $2,458,001; and referenced a table titled "Estimated Impact of Recommended Assumptions Changes Based on Preliminary July 1, 2015, Valuation Results", which reflected the recommended changes noted above (reducing interest rate and salary scale assumptions). In conclusion of the above-noted work session presentation, Downey advised the total annual estimated additional costs to implement all changes are $1,223,000, or a 54 percent increase in contributions, noting the costs of implementing all the changes at one time would be difficult for the General Fund to fund and would deplete reserves too quickly unless additional revenue is generated or service reductions are made. In conclusion of the above-noted work session report, Downey and VanderZanden advised staff is proposing a strategy to phase-in the actuarial assumptions changes over the next three to five years, starting in FY2016-17 budget year, which is one of the alternative approaches suggested by the Actuary.

Council Discussion:
Mayor Truax opened the floor and roundtable discussion ensued pertaining to status of the City's Defined Benefit Plan and overall budgetary effect on the City's General Fund and options to implement the recommendations over time. Downey and Actuary responded to various concerns, inquiries and scenarios Council presented pertaining to implementing the recommendations and costs to the General Fund departments, to which Downey noted in order to absorb the potential increased costs, Light and Power Fund would need to increase rates by 1.8 percent and Water Fund would need to increase rates by 2.4 percent. The Enterprise Funds would have less difficulty implementing the changes due to the ability to increase rates. Downey pointed out waiting to make any changes would ultimately increase the costs of making changes, noting staff would work with Actuary on an allocation method to charge contributions to the various departments in the General Fund. Downey also noted the phase-in would allow the City to factor the increased retirement contributions in the financial projections to be prepared as part of the process to review the renewal of the five-year local option levy, which expires June 30, 2018. In conclusion of the above-noted Council discussion, Downey and VanderZanden advised staff will factor the rate increases into a phasing plan that staff and Actuary will develop and bring back to Council for consideration in a follow-up work session at a later date.

Council took no formal action nor made any formal decisions during the above-noted work session.

3. <u>ADJOURNMENT</u>:
Mayor Truax adjourned the work session at 6:59 p.m.

Respectfully submitted,

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Anna D. Ruggles, CMC, City Recorder