

LAW AND FINANCE MEETING
May 14, 2008

The Law and Finance Committee met on Wednesday, May 14, 2008, 1:00 P.M., in the Council Chambers at City Hall. The following people were present:

Present:

Law and Finance Committee:

Mayor Cornelia P. Olive	Council Member Mike Stone
Mayor Pro Tem Joseph E. Martin	Council Member James G. Williams
Council Member Charles Taylor	Council Member Walter H. McNeil, Jr.
Council Member Steve Brewer	Council Member Linwood S. Mann, Sr.
City Manager Hal Hegwer	Deputy City Clerk Janice Cox
City Attorney Susan C. Patterson	City Staff

Absent: City Clerk Bonnie White

Consider Summary of Request for Proposals Provision for Surveying Services City of Sanford Endor Iron Trail (Greenway) Project Phase I—(Exhibit A)

Angela Baker, Community Development Administrative Service Coordinator, explained that the City of Sanford/Lee County Planning Department solicited for proposals to provide surveying services for its Endor Iron Trail (Greenway) project, Phase I. Eight proposals were mailed and three were received. Proposals were reviewed by the Planning staff, city engineer, and city attorney. The factors for award denoted by the point system include the experience of the surveyor, responsiveness of surveyor's duties, cost effectiveness, the firm's qualification, reputation and references, and the responsiveness of the firm to include all necessary elements requested. A request for proposal for the services requested cannot be based solely on price, therefore, comparing the information submitted by each firm made the analysis more difficult. Based on the information received in the proposals and the analysis of the factors for award, the Planning Department recommends award of the surveying services to the local firm of Alley, Williams, Carmen & King, Inc. who came in with the most points at 68 out of 70.

Consider Presentation on Funding Other Post-Employment Benefits—(Exhibit B)

Finance Director Melissa Cardinali gave a presentation detailing the accounting changes for funding other post-employment benefits. She explained that (OPEB) other post-employment benefits are benefits that are taken after the employee's services have ended through retirement. That would include all benefits in an employee's compensation package except for the actual pension payments. The benefits, themselves, have not changed and continue to be available. None of the accounting changes affect the benefits themselves. For our city, we are speaking specifically about health insurance for retirees. What has changed is how we account for these benefits. In 2004, the Governmental Accounting Standards Board issued their statement #45. Statement #45 requires all governmental units to account for other post-employment benefits like they would their pension plan. What this means is that, right now, for each active employee, each month we take money and put into the retirement system for that employee. When they retire, they take their pension payment out of that retirement system. Currently, we are acknowledging that benefit is accruing while the employee is in service, and that is what we are

going to have to do with other post-employment benefits. It is the same principle as the retirement system. Funding is not required by GASB #45 of OPEB, but they do require us to have an actuarial study done to determine what our liability is, and the study has to be done every two years. Then, we are required to record the actuarially determined liability on our books. GASB does encourage funding. Funding while employee is in active service is similar to saving for a child's college—it is easier and less expensive. That pre-funding will actually save the city money in the long run. Addressing the OPEB liability protects our credit rating. In the next few years, city plans to enter the bond market and issue debt to upgrade and expand the wastewater treatment plant. Keeping our credit rating where it is, is very important because if the interest rate fluctuates even one-half percent on that \$65 million for twenty-five years, it could add \$2 million to the cost of that project. Staff is recommending that the city take a conservative approach following the lead of some of the larger cities like Charlotte in recommending that city adopt a funding policy to address other post-employment benefits and that liability and base it on the annual required contribution that has been determined by the actuary. Finance recommends that in the current year, we set aside for funding just under \$1.2 million, which is our annual required contribution normal cost, and finance is suggesting that city pay \$893,400 from the General Fund and \$282,100 from the Utility Fund into the State Treasurer's OPEB trust account. That split of money is based on the number of employees who are in the General Fund and in the Utility Fund. Finance is recommending that the policy adopted include future year funding, and that would include putting up to 10 percent of the ARC (annual required cost) beginning in FY 2008-2009, setting that aside, but not funding less than \$75,000 in addition to what we currently pay for retirees.

Ms. Cardinali concluded that by going ahead and starting to address the pre-funding of other post-employment benefits, we will be able to reduce our liability; we will be able to increase our interest income for other post-employment benefits; and then we would be able to reduce our ARC in future actuarial studies. She recommends that council adopt a policy within the next thirty days.

Mayor Olive asked how much the City pays a year in matching 401(k) funds. Ms. Cardinali said she would get that number for her for the next meeting, explaining that 5 percent of the annual salary of each employee is put in.

Council Member Stone asked if this is moving funds from one area to another. Ms. Cardinali said that for this to be considered funded, it has to be in an irrevocable trust, and finance is recommending that we do that via the trust that the State Treasurer's Office is setting up. We will have the benefit of putting our \$1.175 million in with millions of other dollars and gaining the benefit of higher interest earnings. Council Member Martin asked where that money is now. Ms. Cardinali replied that it is in the reserves for the Utility Fund and fund balance for the General Fund.

City Manager Hegwer pointed out that that money could not be used for normal General Fund expenditures in the future, but only for what is in that trust. In response to Mr. Hegwer's question about actuarial rate projections, Ms. Cardinali explained that because we haven't funded anything, they are only giving us a 4 percent rate of return. If we start funding, they can increase that rate of return to 7 percent. The higher the interest rate of return, all other things being equal,

our annual required contribution or liability would come down each year because more interest would be earned. Mr. Hegwer said that without the funding, the liability would continue to grow because of the number of retirees over time.

Council Member Williams asked if the state controlled this fund. Ms. Cardinali explained that the legislature gave the State Treasurer's office the authority to set up an irrevocable trust for that purpose, so they would be administering that trust; they obviously could not get their hands on it because it is an irrevocable trust in our name. Mr. Williams referred to what happened with the highway trust fund and social security. Ms. Cardinali said that the city attorney would review all paperwork and terms of the trust to be sure that, legally, that would be a recommendation. Approving this policy does not commit us to that trust fund. Mr. Hegwer said it is a pro-active approach, and many larger cities will be going this way.

Mayor Olive asked how many retirees we now have. Ms. Cardinali said in the upper seventies.

Other Business

Council Member Brewer asked where we stand on our pocket parks and lighting at City Hall. Operations Manger Tim Shaw said we are in the process of getting numbers. One has been received from Progress Energy for a lighting plan for the parking lots and the entire walk area around City Hall; it is a system we would pay a monthly fee for and maintenance would be 100 percent their (Progress Energy) cost. He is also working with a contractor to get a price on us purchasing our own lights for the same areas; he should have them by next Law & Finance meeting. Installation and maintenance would be at city's expense. He has also had a layout done for a bench that was asked for. He will present both to Council at the same time.

City Manager Hegwer said that regarding the pocket parks, some cost estimates have been received on some playground equipment, but not on site work. He said we were moving ahead quickly on that.

Council Member Taylor thanked Community Development staff for attending the Board of Adjustment Hearing last night and for their preparation and professionalism.

Consider Closed Session

City Attorney Susan Patterson entertained a motion to go into closed session in accordance with N.C.G.S.143-318.11(a)(4) to discuss matters relating to the location or expansion of industries or other business in the area served by the public body. So moved by Council Member Linwood Mann and seconded by Council Member Walter McNeil, the motion carried unanimously.

ALL EXHIBITS CONTAINED HEREIN ARE HEREBY INCORPORATED BY REFERENCE AND MADE A PART OF THESE MINUTES.

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RETURN TO REGULAR SESSION AND ADJOURNMENT

Having no further business to come before the Law and Finance Committee, the meeting was adjourned upon the motion of Mayor Pro Tem Joe Martin; seconded by Council Member James Williams, the motion carried unanimously.

Respectfully submitted,

Cornelia P. Olive, Mayor

Janice Cox, Deputy City Clerk