TOWN OF PALM BEACH

Town Manager's Office

TENTATIVE - SUBJECT TO REVISION

FINANCE AND TAXATION COMMITTEE

AGENDA

TOWN COUNCIL CHAMBERS

WEDNESDAY, MARCH 30, 2016

2:00 P.M.

I. CALL TO ORDER AND ROLL CALL
Michael J. Pucillo, Chair
Richard M. Kleid, Member

II. PLEDGE OF ALLEGIANCE

III. COMMUNICATIONS FROM CITIZENS - 3 MINUTE LIMIT PLEASE

IV. APPROVAL OF AGENDA

V. DISCUSSION REGARDING THE POTENTIAL REFUNDING OF THE 2010 REVENUE BONDS. [Jane Struder, Finance Director]

VI. CONSIDERATION OF PUBLIC SAFETY PENSION MATTERS

a. PRESENTATION OF COMPENSATION STUDY RESULTS [Gary Lawson, Mercer Group]

b. DISCUSSION OF POTENTIAL ALTERNATIVE OPTIONS FOR DEFINED BENEFIT PLAN FOR PUBLIC SAFETY EMPLOYEES

VII. ANY OTHER MATTERS

VIII. ADJOURNMENT

PLEASE TAKE NOTE:

Disabled persons who need an accommodation in order to participate in the Finance and Taxation Committee Meeting are requested to contact the Town Manager's Office at 838-5410 or through the Florida Relay Service by dialing 1-800-955-8770 for voice callers or 1-800-955-8771 for TDD callers, at least two (2) working days before this meeting.

F&T Pucillo Chair
Kleid Comm. Member

①

Meeting: FTC Date: 3/30/16

Location: Chambers

Start: 2:00 P.M. Adjourn: 4:38 P.M.

-- MEETING ACTION SHEETS --

Chairman Pucillo / Cmte/Bd Member Kleid / ~~Cmte/Brd Member~~

Item: Agenda /

Motion: Approve – Deny – Withdraw – Defer – Recess – Reconsider – Other:

MR/MS. Kleid 1	MR/MS. Pucillo 2	MR/MS.		

Item: V / Refunding of 2010 Revenue Bonds

Motion: ~~Approve~~ – Deny – Withdraw – Defer – Recess – Reconsider – Other:

Not proceed; monitor interest rates

(consensus)

MR/MS. Kleid	MR/MS. Pucillo	MR/MS.		

Item: VI.b. / Potential Options

Motion: Approve – Deny – Withdraw – Defer – Recess – Reconsider – Other:

Direct Staff to prepare the following info for 4/12 TC mtg:

- PUC's scenario (4:25pm)
- FRS costs

provide alongside other scenarios

(consensus)

MR/MS. Kleid	MR/MS. Pucillo	MR/MS.		

Item: /

Motion: Approve – Deny – Withdraw – Defer – Recess – Reconsider – Other:

MR/MS. Kleid	MR/MS. Pucillo	MR/MS.		

Meeting: ______________________________ Date: ____________

Location: ______________________________

Start: ____________ Adjourn : ____________

Item: ____________ / ______________________________

Motion: *Approve – Deny – Withdraw – Defer – Recess – Reconsider – Other*: ____________

MR/MS.	MR/MS.	MR/MS.		

Item: ____________ / ______________________________

Motion: *Approve – Deny – Withdraw – Defer – Recess – Reconsider – Other*: ____________

MR/MS.	MR/MS.	MR/MS.		

Item: ____________ / ______________________________

Motion: *Approve – Deny – Withdraw – Defer – Recess – Reconsider – Other*: ____________

MR/MS.	MR/MS.	MR/MS.		

Item: ____________ / ______________________________

Motion: *Approve – Deny – Withdraw – Defer – Recess – Reconsider – Other*: ____________

MR/MS.	MR/MS.	MR/MS.		

March 30, 2016

Town of Palm Beach, Florida

Refunding Opportunity for Series 2010A&B Bonds

Submitted at Mtg

3/30/16

Introduction

The Town's finance professionals have analyzed the potential refunding opportunities for the outstanding Series 2010A & 2010B Bonds

- The Town is able to reduce its annual debt service payments by refunding certain callable maturities of the Series 2010A and 2010B Bonds.
- The goal of the meeting is to receive feedback from the Committee members on the minimum level of savings that the Town should achieve in order to move forward with its one advance refunding opportunity.

	Public Improvement Revenue and Refunding Bonds, Series 2010A (Capital Improvement Program)	**Public Improvement Revenue Bonds, Series 2010B (Worth Avenue Commercial District Program)**
Original Par Issued	$57,035,000	$14,770,000
Outstanding Par	$50,840,000	$11,550,000
Advance Refundable Par	$41,350,000	$10,290,000
Use of Proceeds	Finance improvements and renovations to "Town Infrastructure Project" (sewer, storm water, street lighting, traffic signals), advance refund the Town's Revenue Refunding Bonds, Series 2003B, and currently prepay the Town's Public Improvement Revenue Notes, Series 2008 and 2009.	Finance Worth Avenue Commercial District capital improvements

Summary of Results – Base Case – Current Market

Below we highlight the results of an advance refunding of the Series 2010A and 2010B callable maturities producing $1 PV savings individually.

Refunding Results	
Delivery Date	7/1/2016
Par Amount ($)	44,700,000
Premium ($)	8,574,689
Total Proceeds ($)	**53,274,689**
Series Refunded	2010A, 2010B
Refunded Amount ($)	46,985,000
Call Date of Refunded Bonds	1/1/2020
2010A Maturities Refunded	1/1/2021 – 1/1/2040
2010B Maturities Refunded	1/1/2021 – 1/1/2032
Avg Interest Rate on Refunded Bonds	4.90%
Gross Savings	**3,250,384**
PV Savings ($)[1]	**2,341,727**
PV Savings (%)	**4.98%**
All-In TIC (%)	3.38%
Arb Yield (%)	2.59%
Avg Life (yrs)	15.11
Escrow Yield	1.13%
Negative Arbitrage ($)	2,447,351
Savings Efficiency Ratio[2]	48.90%

Year	Prior Debt Service	Refunding Debt Service	Annual Savings
2017	1,140,984	1,117,500	23,484
2018	2,281,969	2,235,000	46,969
2019	2,281,969	2,235,000	46,969
2020	2,281,969	2,235,000	46,969
2021	3,861,969	3,705,000	156,969
2022	3,868,069	3,711,500	156,569
2023	3,865,394	3,709,000	156,394
2024	3,868,663	3,712,750	155,913
2025	3,872,413	3,717,250	155,163
2026	3,875,863	3,722,250	153,613
2027	3,874,713	3,722,500	152,213
2028	3,873,963	3,718,000	155,963
2029	3,878,213	3,723,750	154,463
2030	3,887,488	3,734,000	153,488
2031	3,880,375	3,728,250	152,125
2032	3,891,625	3,737,000	154,625
2033	3,896,250	3,744,250	152,000
2034	3,324,250	3,169,750	154,500
2035	3,321,250	3,167,250	154,000
2036	3,332,500	3,179,250	153,250
2037	3,332,000	3,179,750	152,250
2038	3,340,000	3,184,000	156,000
2039	3,340,750	3,186,500	154,250
2040	3,344,250	3,192,000	152,250
Total:	**81,716,884**	**78,466,500**	**3,250,384**

Rates as of COB March 22, 2016. Preliminary, subject to change.
1 PV Savings is present valued at the arbitrage yield to the delivery date
2. PV Savings / (PV Savings + Negative Arbitrage)

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Should the Town Wait? Break-Even Analysis

How much can interest rates rise over time and maintain the current level of savings available in today's market?

Refunding Results	Current Market Rates	Current Market Rates + 0.38%	Current Market Rates + 0.84%
Delivery Date	**7/1/2016**	**7/1/2017**	**7/1/2018**
Par Amount ($)	44,700,000	44,620,000	44,575,000
Premium ($)	8,574,689	7,169,415	5,554,390
Total Proceeds ($)	**53,274,689**	**51,789,415**	**50,129,390**
Series Refunded	2010A, 2010B	2010A, 2010B	2010A, 2010B
Refunded Amount ($)	46,985,000	46,985,000	46,985,000
Gross Savings	**3,250,384**	**3,349,416**	**3,374,072**
PV Savings ($)[1]	**2,341,727**	**2,377,806**	**2,348,396**
PV Savings (%)	**4.98%**	**5.06%**	**5.00%**
Negative Arbitrage ($)	2,447,351	2,305,725	1,785,984
Escrow Efficiency Ratio[2]	48.90%	50.77%	56.80%

- If the Town waits a year to refund the bonds and interest rates increase more than 0.38%, the savings would be less than current levels
- If the Town waits two years to refund the bonds and interest rates increase more than 0.84%, the savings would be less than current levels

Rates as of COB March 22, 2016. Preliminary, subject to change.

1. PV Savings is present valued at the arbitrage yield to the delivery date
2. PV Savings / (PV Savings + Negative Arbitrage)

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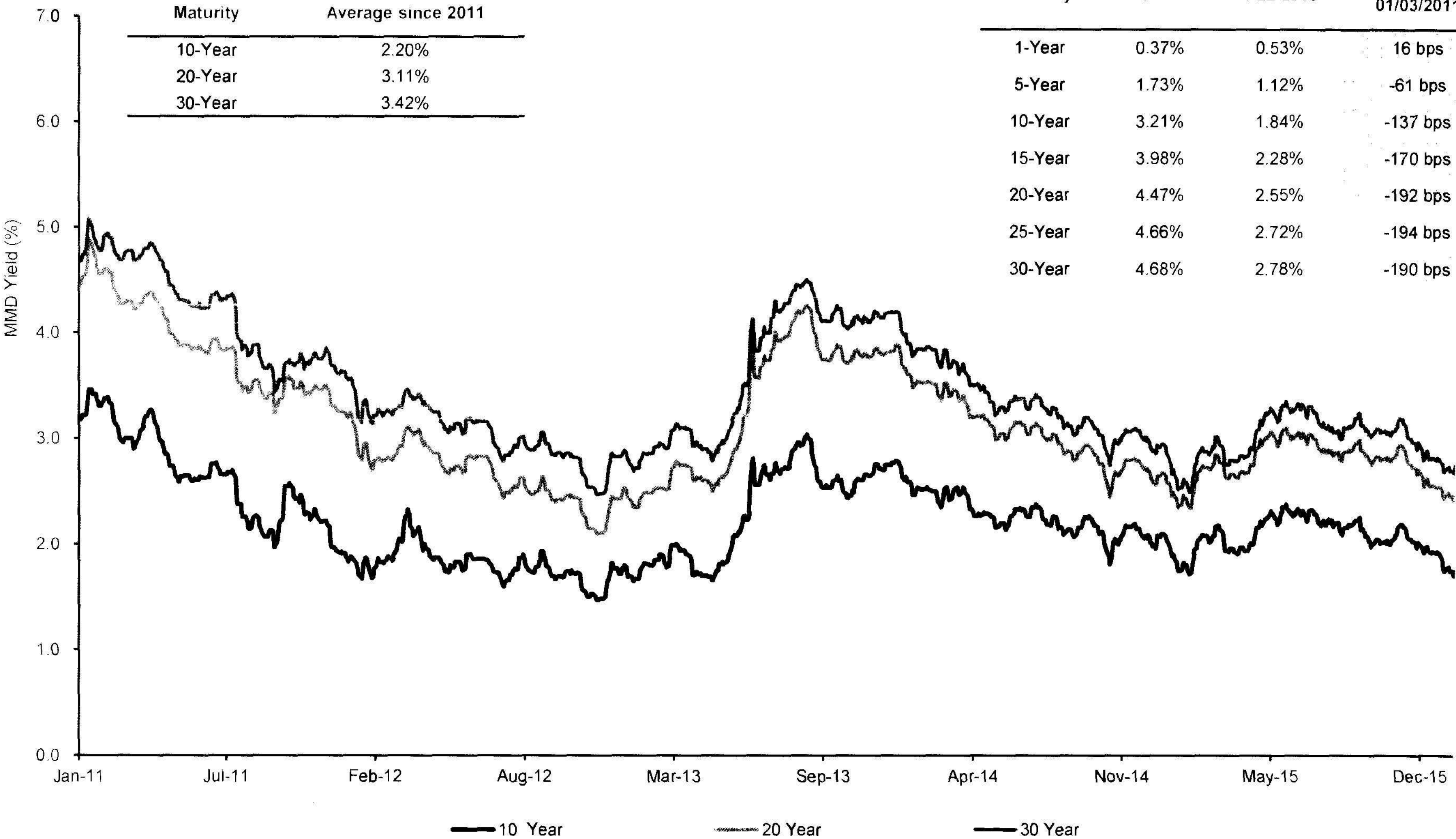
Interest Rate Volatility

Since 2011 the 30-year MMD has averaged 3.42%, which is 64 bps higher than today.



Maturity	Average since 2011
10-Year	2.20%
20-Year	3.11%
30-Year	3.42%

Maturity	1/3/2011	3/22/2016	Change Since 01/03/2011
1-Year	0.37%	0.53%	16 bps
5-Year	1.73%	1.12%	-61 bps
10-Year	3.21%	1.84%	-137 bps
15-Year	3.98%	2.28%	-170 bps
20-Year	4.47%	2.55%	-192 bps
25-Year	4.66%	2.72%	-194 bps
30-Year	4.68%	2.78%	-190 bps

Source: Thomson Reuters, data as of March 22, 2016.

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Refunding Monitor of Series 2010A Bonds

Under current market conditions, all of the advance refundable Series 2010A maturities produce positive present value savings

Positive PV savings

Town of Palm Beach, Florida
Maturity-by-Maturity Analysis of Series 2010A Public Improvement Revenue and Refunding Bonds

Candidates			Current Rates	
Maturity	Par	Coupon	$ PV	% PV
1/1/2021	1,240,000	5.000%	26,914	2.2%
1/1/2022	1,305,000	5.000%	61,445	4.7%
1/1/2023	1,370,000	5.000%	92,595	6.8%
1/1/2024	1,440,000	5.000%	119,457	8.3%
1/1/2025	1,515,000	5.000%	147,614	9.7%
1/1/2026	1,595,000	5.000%	175,960	11.0%
1/1/2027	1,675,000	5.000%	164,714	9.8%
1/1/2028	1,755,000	4.125%	56,520	3.2%
1/1/2029	1,835,000	5.000%	148,759	8.1%
1/1/2030	1,930,000	5.000%	130,977	6.8%
1/1/2031	2,025,000	5.000%	122,591	6.1%
1/1/2032	2,135,000	5.000%	111,006	5.2%
1/1/2033	2,245,000	5.000%	106,445	4.7%
1/1/2034	2,360,000	5.000%	100,862	4.3%
1/1/2035	2,475,000	5.000%	93,944	3.8%
1/1/2036	2,610,000	5.000%	89,106	3.4%
1/1/2037	2,740,000	5.000%	51,864	1.9%
1/1/2038	2,885,000	5.000%	55,038	1.9%
1/1/2039	3,030,000	5.000%	58,242	1.9%
1/1/2040	3,185,000	5.000%	61,668	1.9%

Based on DBC Monitor Results. Rates as of COB 3/22/2016.
Costs of issuance and Underwriter's Discount assumed at $10 / $1,000. All savings Present Valued back to the delivery of the bonds at respective arbitrage yields.
For illustrative purposes only, subject to market conditions.

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Refunding Monitor of Series 2010B Bonds

Under current market conditions, $5.635 million of the Series 2010B maturities produce positive present value savings

Positive PV savings

Town of Palm Beach, Florida
Maturity-by-Maturity Analysis of Series 2010B Public Improvement Revenue and Refunding Bonds

Candidates			Current Rates	
Maturity	Par	Coupon	$ PV	% PV
1/1/2021	340,000	3.500%	2,732	0.8%
1/1/2022	355,000	3.500%	7,012	2.0%
1/1/2023	365,000	3.625%	11,119	3.0%
1/1/2024	380,000	3.750%	14,711	3.9%
1/1/2025	395,000	4.000%	21,296	5.4%
1/1/2026	410,000	4.000%	24,178	5.9%
1/1/2027	425,000	4.000%	17,086	4.0%
1/1/2028	445,000	4.125%	14,331	3.2%
1/1/2029	460,000	4.125%	8,635	1.9%
1/1/2030	485,000	4.250%	4,896	1.0%
1/1/2031	500,000	4.500%	9,538	1.9%
1/1/2032	525,000	4.500%	4,074	0.8%
1/1/2033	550,000	4.500%	214	0.0%
1/1/2034	580,000	4.500%	(4,036)	(0.7%)
1/1/2035	610,000	4.500%	(8,717)	(1.4%)
1/1/2036	625,000	4.500%	(12,871)	(2.1%)
1/1/2037	660,000	4.500%	(24,769)	(3.8%)
1/1/2038	690,000	4.500%	(27,497)	(4.0%)
1/1/2039	730,000	4.500%	(30,735)	(4.2%)
1/1/2040	760,000	4.500%	(33,659)	(4.4%)

Based on DBC Monitor Results. Rates as of COB 3/22/2016.
Costs of issuance and Underwriter's Discount assumed at $10 / $1,000. All savings Present Valued back to the delivery of the bonds at respective arbitrage yields.
For illustrative purposes only, subject to market conditions.

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Options for Moving Forward

- Option 1: Set net present value debt service savings parameter of not less than 5% of refunded bonds par amount; direct Staff and finance team to monitor the market until savings exceeds 5%. If we get to a point where the finance team feels there is a good chance the minimum savings target can be met, we will then begin preparing documents and seek Town Council approval.
  - If interest rates rise while the documents are being prepared, the refinancing will be put on hold until the minimum 5% savings target can be met.

- Option 2: Set net present value debt service savings parameter of not less than 5% of refunded bonds par amount; direct staff to immediately begin preparing the financing documents and seek Town Council approval of the refunding.
  - This option would give the Town the ability to move forward as quickly as possible to hit the savings target if/when market conditions permit.

- Option 3: Set a lower or higher net present value savings parameter/target (vs 5%), prepare financing documents (when appropriate), and seek Town Council approval of the refunding.

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Citi works with its clients in greenhouse gas intensive industries to evaluate emerging risks from climate change and, where appropriate, to mitigate those risks.

efficiency, renewable energy and mitigation

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REPORT OF THE FINANCE AND TAXATION COMMITTEE
MEETING HELD ON MONDAY, FEBRUARY 8, 2016

I. CALL TO ORDER AND ROLL CALL

The Finance and Taxation Committee meeting was called to order on February 8, 2016, at 9:34 a.m., in the Town Council Chambers. On roll call, all Committee Members were found to be present.

II. PLEDGE OF ALLEGIANCE

Chair Pucillo led the Pledge of Allegiance.

III. COMMUNICATIONS FROM CITIZENS – *None*

IV. APPROVAL OF AGENDA

Motion was made by Committee Member Kleid, and seconded by Chair Pucillo, to approve the Agenda. On call for a vote, the motion carried unanimously.

V. DISCUSSION OF POTENTIAL ALTERNATIVE OPTIONS FOR DEFINED BENEFIT PLAN FOR PUBLIC SAFETY EMPLOYEES

Chair Pucillo spoke regarding how the presentation was prepared and the instructions that were given to the Actuary in preparation for the presentation.

Director Struder provided an overview of the different scenarios presented.

Wilbur Ross, 328 El Vedado, Retirement Board of Trustees Co-Chair, expressed his support for solving recruitment and retention issues, but expressed concern that the figures used in the presentation were from 2014.

Discussion ensued regarding when updated figures would be available, reviewing the status of the retirement plan on a long-term basis, and the effect market changes since 2014 would have on the plan.

Actuary Brad Armstrong confirmed that 2015 figures would be available prior to the March 7, 2016, Retirement Board of Trustees meeting.

David Rosow, 1460 N. Lake Way, spoke regarding the importance of obtaining up-to-date data, changing employment market conditions, other municipalities' retirement systems, increasing the multiplier and eliminating the defined contribution plan for public safety employees, putting any changes into place before the next budget cycle, the funding obligation continuing to grow no matter what the Town does, changing course, the Town's discretionary 4% contribution, and the 457K Plan. He recommended a 10% public safety employee contribution, a 2.5% multiplier, and a retirement age of 56.

Discussion ensued regarding the unfunded liabilities under the defined benefit plan, differences in the municipal marketplace, the history of the pension changes, public safety employee culture, market conditions and their effect on the plan, and having the Retirement Board of Trustees look into getting a better investment manager.

By consensus of the Committee, the item was deferred until the 2015 data is available.

VI. <u>RESULTS OF SURVEY CONDUCTED BY THE HUMAN RESOURCE DEPARTMENT</u> [Danielle Olson, Director of Human Resources]

Chair Pucillo provided an overview of the survey and spoke regarding general employees' perceptions regarding the fairness of changing the public safety employees' retirement plan.

Director Olson provided an overview of the results.

Public Safety Director Blouin spoke regarding differences in the survey results depending upon how long the employee has been with the Town, the turnover rate being highest among new employees, 65% of public safety employees having three years or less with the Town, and nearly all senior employees being in the DROP Program.

VII. <u>POLICE FOUNDATION AND CIVIC ASSOCIATION REQUEST</u>

[Pat Cooper, Civic Association and Tim Moran, Police Foundation]

John Scarpa, 1676 S. Ocean Blvd, Palm Beach Police Foundation President and Palm Beach Civic Association Member, stated that both the Police Foundation and the Civic Association are proposing to underwrite an independent benefit study for public safety personnel. The study would be conducted by the Mercer Organization, and a final report would be available on or about March 3, 2016.

Pat Cooper, Palm Beach Civic Association, added that the study will look at the Town's total compensation and pension benefits and compare them to those of other municipalities.

Tim Moran, 257 Dunbar Rd., Palm Beach Police Foundation, stated that the study would only include general employees if the results indicate that public safety and general employees are treated the same in other municipalities.

Discussion ensued regarding different mentalities, concerns, and expectations between public safety and general employees, trying to get as much data as possible within the specified timeframe, public relations problems if the study focuses only on public safety personnel, what question the Police Foundation and Civic Association want Mercer to answer, whether the study will be limited to Palm Beach agencies, what will be included in the study, how intangible benefits are to be evaluated, working closely with Staff during the study, having Staff review the draft report, looking into what organizations employees are leaving the Town to join, costs involved in the study, and study timing.

Chair Pucillo stated the importance of finalizing Mercer's recommendations before preparation of next year's budget. He stated that the Committee will meet in March to make recommendations for the Town Council's consideration in April.

Discussion ensued regarding future Committee meeting dates, whether the report will compare Town salaries with those of the other municipalities, the final report including a series of options without costs attributed to them, and concerns over the timing of the recommendations and getting cost estimates before next year's budget process begins.

Gerry Frank, 2784 S. Ocean Blvd., Civic Association and Police Foundation Member, spoke regarding the Civic Association's recent survey results showing that safety is one of the main reasons people choose to live in Palm Beach and spoke in support of raising taxes if needed to address public safety personnel recruitment and retention.

Discussion ensued regarding opposition to any tax increase, the need for public safety to be the Town's goal, and the ability to find a revenue neutral solution to these matters.

It was the consensus of the Committee to recommend that the Town Council approve the proposal made by the Palm Beach Civic Association and Palm Beach Police Foundation and to accept their donation to underwrite a compensation and benefit study for public safety personnel.

VIII. ANY OTHER MATTERS

Chair Pucillo stated to Director of Public Safety Blouin that the Committee understands the problem, and that it is committed to dealing with the issue.

IX. ADJOURNMENT

There being no further business, the Finance and Taxation Committee meeting of Monday, February 8, 2016, was adjourned at 11:07 a.m.

APPROVED:

____

Michael J. Pucillo
Chair

ATTEST:

____

Susan A. Owens, MPA, MMC
Town Clerk

____

Date

Town of Palm Beach

Public Safety Pension Scenarios

Finance and Taxation Committee Meeting March 30, 2016

Submitted at Mtg

3/30/16

Original Analysis

Scenarios Using the Entire 8% of the DC Match

	Current Plan w/ 7.5%	Current Plan w/7%	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
Retirement Age	65	65	55	55	56	60	55
Multiplier	1.25%	1.25%	2.50%	**3.06%**	**3.13%**	3.00%	3.00%
Employee Contribution*	2.47%	2.47%	**5.74%**	10.00%	10.00%	**6.90%**	10.00%
Town Contribution	$5,487,020	$5,977,892	$5,977,892	$5,977,892	$5,977,892	$5,977,892	**$5,954,216**
UAAL	$57,262,911	$68,542,664	$70,630,159	$71,054,618	$71,197,427	$71,317,223	$70,854,483

* Employee Contribution represents the DB contribution only. Police Officers and non union Firefighters contribute 6.47% in total to both the DB and DC.

With the exception of column 1 relating to the current plan, all scenarios assume a 7% rate of return assumption.

Bargaining Firefighters contribute 4.82% , all other public safety officers contribute 2.47%.

Scenarios Using the Entire 8% of the DC Match

	Current Plan w/ 7.5%	Current Plan w/7%	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
Retirement Age	65	65	55	55	56	60	55
Multiplier	1.25%	1.25%	2.50%	**3.03%**	**3.09%**	3.00%	3.00%
Employee Contribution*	2.47%	2.47%	**6.17%**	10.00%	10.00%	**7.55%**	10.00%
Town Contribution	$5,656,031	$6,415,630	$6,415,630	$6,415,630	$6,415,630	$6,415,630	**$6,405,608**
UAAL	$58,126,229	$73,216,022	$75,483,610	$75,986,908	$76,119,652	$76,181,397	$75,892,110
Combined Funded Ratio	68.2%	62.9%	62.2%	62.1%	62.0%	62.0%	62.1%

* Employee Contribution represents the DB contribution only. Police Officers and non union Firefighters contribute 6.47% in total to both the DB and DC.

With the exception of column 1 relating to the current plan, all scenarios assume a 7% rate of return assumption.

Bargaining Firefighters contribute 4.82% , all other public safety officers contribute 2.47%.

Comparison of Scenarios Using the Entire 8% of the DC Match

	Current Plan w/ 7.5%	Current Plan w/7%	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
Retirement Age	65	65	55	55	56	60	55
Multiplier - Update	1.25%	1.25%	2.50%	3.03%	3.09%	3.00%	3.00%
Multiplier Original Report				3.06%	3.13%		
EE Contribution - Update	2.47%	2.47%	6.17%	10.00%	10.00%	7.55%	10.00%
EE Contribution Original			5.74%			6.90%	
Town Contribution Update	$5,656,031	$6,415,630	$6,415,630	$6,415,630	$6,415,630	$6,415,630	$6,405,608
Town Contribution -Original	$5,487,020	$5,977,891	$5,977,892	$5,977,892	$5,977,892	$5,977,892	$5,954,216
UAAL	$58,126,229	$73,216,022	$75,483,610	$75,986,908	$76,119,652	$76,181,397	$75,892,110
Combined Funded Ratio	68.2%	62.9%	62.2%	62.1%	62.0%	62.0%	62.1%

Original Analysis
Scenarios Using only 7% of the DC Match

	Current Plan w/ 7.5%	Current Plan w/7%	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
Retirement Age	65	65	55	55	56	60	55
Multiplier	1.25%	1.25%	2.50%	**2.90%**	**2.96%**	3.00%	3.00%
Employee Contribution*	2.47%	2.47%	**7.09%**	10.00%	10.00%	**8.24%**	10.00%
Town Contribution	$5,487,020	$5,977,892	$5,912,184	$5,912,184	$5,912,184	$5,912,184	**$5,954,216**
UAAL	$57,262,911	$68,542,664	$70,429,127	$70,787,330	$70,909,669	$71,077,045	$70,954,483

* Employee Contribution represents the DB contribution only. Police Officers and non union Firefighters contribute 6.47% in total to both the DB and DC.

With the exception of column 1 relating to the current plan, all scenarios assume a 7% rate of return assumption.

Bargaining Firefighters contribute 4.82% , all other public safety officers contribute 2.47%.

Scenarios Using only 7% of the DC Match

	Current Plan w/ 7.5%	Current Plan w/7%	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
Retirement Age	65	65	55	55	56	60	55
Multiplier	1.25%	1.25%	2.50%	**2.88%**	**2.93%**	3.00%	3.00%
Employee Contribution*	2.47%	2.47%	**7.48%**	10.00%	10.00%	**8.85%**	10.00%
Town Contribution	$5,590,363	$6,349,962	$6,349,962	$6,349,962	$6,349,962	$6,349,962	**$6,405,608**
UAAL	$58,126,229	$73,216,022	$75,261,712	$75,697,783	$75,810,225	$75,920,361	$75,892,110
Combined Funded Ratio	68.2%	62.9%	62.3%	62.2%	62.1%	62.1%	62.1%

* Employee Contribution represents the DB contribution only. Police Officers and non union Firefighters contribute 6.47% in total to both the DB and DC.

With the exception of column 1 relating to the current plan, all scenarios assume a 7% rate of return assumption. Bargaining Firefighters contribute 4.82% , all other public safety officers contribute 2.47%.

Comparisons of Scenarios Using only 7% of the DC Match

	Current Plan w/ 7.5%	Current Plan w/7%	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
Retirement Age	65	65	55	55	56	60	55
Multiplier - Update	1.25%	1.25%	2.50%	2.88%	2.93%	3.00%	3.00%
Multiplier Original Report				2.90%	2.96%		
EE Contribution - Update	2.47%	2.47%	7.48%	10.00%	10.00%	8.85%	10.00%
EE Contribution Original			7.09%			8.24%	
Town Contribution Update	$5,590,363	$6,349,962	$6,349,962	$6,349,962	$6,349,962	$6,349,962	$6,405,608
Town Contribution Original	$5,487,020	$5,977,891	$5,912,184	$5,912,184	$5,912,184	$5,912,184	$5,954,216
UAAL	$58,126,229	$73,216,022	$75,261,712	$75,697,783	$75,810,225	$75,920,361	$75,892,110
Combined Funded Ratio	68.2%	62.9%	62.3%	62.2%	62.1%	62.1%	62.1%

March 30, 2016

To: The Mayor and Town Council of Palm Beach

I apologize for not being present at today's Finance and Taxation meeting as I am currently traveling overseas on business. I have reviewed the Mercer report and believe that it makes the important point that we must consider the whole package available to the uniformed services not just the pension plan. It however is skewed in that it assumes that in the defined contribution plan the return on portfolio is only 6% while the people are employed and that they then buy an annuity at only 5%. Since the present rate of return assumption is 7.5% and the trustees have recommended a gradual downward adjustment to 7% the study should compare apples and oranges or either use the trustees' assumptions for both purposes or else use the 6% assumption to demonstrate to the council the horrific results if the actual outcomes are a combination of 6% and 5%. I know of no public pension fund that uses such low assumptions and believe that doing so greatly distorts negatively the results of defined contribution versus defined benefit. It also is not clear to me that Mercer takes into account the other structural changes regarding retirement age etc. nor do they address the question of whether some combination of more upfront pay, a stay bonus after 3 or 5 years and an obligation of trainees to repay the cost of their training if they skip after a couple of years might be a better solution. Finally in discussing the turnover problem they ignore take fact that much of that turnover was to be expected in the normal course of events nor how much extra benefit and consequent cost to the town senior people in uniformed services scheduled for retirement within the next two or three years would receive under the new program. There clearly is no benefit to the quality or retention of police from adding large amounts to the benefits of near term retirees. Nor is there anything in the Mercer study that proves that the quality of new hires has gone down. I do not know the answers to any of these questions but neither do the Committee nor the Council so how can they make a sound decision without understanding all of the facts? Decisions about the pensions have tens of millions of dollars of potential impact on both the tax payers and the uniformed services and it therefore would be imprudent to rush to a conclusion based on the fragmentary evidence now before the Committee. I reiterate my beginning statement that that I have the utmost respect for the uniformed services and this is by no means an anti-uniformed services position. Palm Bleach should do what it takes to be assured that our citizens continue to be as well protected as they have been, but the means of achieving that objective need to be well thought through and fact based, not a knee jerked reaction.

1. Because of adverse actual investment results relative to the 7.5% assumption, the Town's unfunded pension liability rose from $67,111,000 to $85,148,000 at 9/30/15, a difference of $18,037,000.

2. In 2014, the projection of the Town's pension contributions for 2017 was $6,894,732. The most recent update is an increase of $1,991,867 to $8,886,049.

3. The actuary estimates that if the rate of return achieved were ½% below the assumption the Town's contributions would rise by $700,000 per year for each year through 2025. If the mortality tables turn out to underestimate longevity by two years, the annual impact would be an additional $700,000 per year. Finally, if payroll increases were 1% more per year than estimated, that would add another $175,000 per year. These three variables could easily raise the base case by $1,575,000 per year.

4. The actuary's estimated employer contributions for the fiscal years ending September 30 follow:
   2015: $7,534,000
   2016: $8,365,000
   2017: $8,886,000
   Rising every year to 2025: $12,602,000

Submitted at Mtg

3/30/16

5. The proposed changes all increase the risk to the Town if the forecasts prove to have been again incorrect. This is inherent any time a defined benefit plan is substituted for a present defined contribution plan. Picking a single future point such as 2017 at which the Town's payment for that year is the same under defined benefit as under defined contribution does not address the question of future risk. 100% of the errors in forecasting will be borne by the Town of Palm Beach.

6. It is not the function of the Pension Board to advise the Town how much risk it should take. But, if the Town Council did desire to limit some of its risk, making the employee contributions a percentage of each year's total actuarially determined contributions rather than a percentage of payroll would mitigate the risks and share them between the Town and the employees. This would create a symmetry of interests between tax payers and town employees. If the sharing were limited to a portion of the incremental cost of the enhanced benefits, the employees would still be guaranteed the ultimate benefits for which they had bargained, but their contributions to the funds would vary a bit with the fund's performance year to year. This would be an unconventional outcome, but we are in an unconventional situation. I am not aware of any public or private sector employer who has ever shifted from a defined benefit fund to a defined contribution one and then shifted back to defined benefit.

7. I also would urge the Town Council to discuss with the uniformed services a possible trade-off between a higher level of current pay, which also would require more pension benefits by increasing the base, as opposed to changing the multiplier or retirement age. Pay increases have been a successful trend in the private sector and there likely is some level at which we could use them to solve our desires regarding recruitment and retention.

8. Whatever benefit package is decided, I do suggest that the actuarial rate of return assumption be reduced from 7 ½% to 7% given that our fund is very mature. To moderate the impact on tax payers it should be phased in by 1/10% per year. The Pension Trustees voted unanimously to recommend this schedule to the Town Council. At the present benefit structure the incremental cost to tax payers would approximate $140,000 each year, cumulating to $700,000 five years hence assuming that the investment performance annually is consistent with the new lower rate assumption.

9. One of the Town's problems is apparently that young people use Palm Beach uniformed services as a way to get to South Florida and be trained. They then shop around for a better deal. Many Wall Street firms pay for young associates to go to graduate schools of business and then return to the firm. The person signs a contract agreeing to remain with the employer for a number of years following graduation and if he or she fails to do so to repay to the firm the cost of this schooling. Some such system might be useful to Palm Beach.

10. Items 6 through 9 reflect my personal thoughts and do not necessarily reflect those of the other Pension Trustees.

Best regards,
Wilbur Ross