



City of Jonesboro

900 West Monroe
Jonesboro, AR 72401

Meeting Minutes Finance & Administration Council Committee

Tuesday, November 9, 2010

4:00 PM

Huntington Building

1. Call To Order

Mayor Perrin was also in attendance.

Councilman Fears arrived at 4:10 p.m.

Present 5 - Ann Williams; Jim Hargis; John Street; Darrel Dover and Mikel Fears

2. Approval of minutes

MIN-10:095

Minutes for the Finance Committee meeting on October 12, 2010.

A motion was made by Councilman John Street, seconded by Councilman Darrel Dover, that this matter be Passed . The motion PASSED by a unanimous vote

Aye: 3 - Jim Hargis; John Street and Darrel Dover

Absent: 1 - Mikel Fears

MIN-10:097

Minutes for the special called Finance Committee meeting on October, 18, 2010

A motion was made by Councilman John Street, seconded by Councilman Darrel Dover, that this matter be Passed . The motion PASSED by a unanimous vote

Aye: 3 - Jim Hargis; John Street and Darrel Dover

Absent: 1 - Mikel Fears

3. New Business

Resolutions To Be Introduced

RES-10:142

RESOLUTION TO ADOPT A REVISED SUBSTANCE ABUSE TESTING PROGRAM POLICY FOR JETS

Sponsors: JETS and Human Resources

Human Resources Director Gloria Roark explained the resolution will amend the JETS policy to conform with the Department of Transportation current drug testing policies.

A motion was made by Councilman Darrel Dover, seconded by Councilman

John Street, that this matter be Recommended to Council . The motion PASSED by a unanimous vote

Aye: 3 - Jim Hargis; John Street and Darrel Dover

Absent: 1 - Mikel Fears

4. Pending Items

5. Other Business

COM-10:122

Discussion of Actuarial Valuation for Non-Uniform Pension Plan

Sponsors: Finance

Jason Franken, an actuarial consultant with Foster & Foster, discussed the non-uniform pension plan and the required contributions by the City for the year 2010. He noted the payments towards the plan should be made before the 2010 calendar year is over. He stated the market crash of 2008 contributed to higher required contributions for the City of \$853,015 for 2009, which to his knowledge has not been paid at this point. He assumed the payment would be made, so it was included in his asset value in determining the contribution requirement for this year. He further explained in Assistant Finance Director Jim Eagan's October 21st memo, it indicates a 2010 value of assets of \$6.776 million, but Principal Financial would not reflect the same amount due to the \$853,015 still being outstanding. Councilman Dover clarified that no matter what occurred with the market this year or how well the plan performs this year, the City is still liable for the \$853,015. Mr. Franken answered yes because it is the 2009 contribution. He noted the plan asset value for 2010 is significantly higher than predicted, with the investment return coming in at 18.9% as opposed to the 7.5% as estimated by Principal. He explained due to this, there was an actuarial gain so the 2010 required contribution decreased from the \$853,015 for 2009 to \$690,346 for 2010. He added payroll decreases also contributed to this change.

Councilman Dover questioned whether the City pays the contribution monthly or yearly affects anything. Mr. Franken explained monthly will reduce future plan contributions if gains are made on the plan that were not expected at the time the City determined the monthly payment.

Mr. Franken explained a lot of places, such as APERS, "smooth" the market returns. He further explained that would use years that have gains to get ahead, so that when a year has a loss the company isn't affected as much and the contribution doesn't change as drastically. He stated, for example, the City could make a higher contribution than the required \$690,346 for 2010, so if the City experiences a loss then the required contribution won't increase as much as it would had the City not paid a higher payment. He noted this would create a more stable contribution pattern.

Councilman Dover then questioned who decides the factors and what are the factors that go into an actuarial study. Mr. Franken stated the biggest factor is the investment return assumption, which is currently being determined by Principal. He explained the assumption should be based on the expected return of the fund. He further explained Principal estimated a 7.5% investment return, which is not much different from the national average of 8%. Councilman Dover asked who makes sure Principal's assumption is reasonable. Mr. Franken answered the City would be responsible. He explained there are some assumptions that he would consider looking at, such as the

retirement age for the employees. He further stated the second most important assumption is the salary rate increase assumption, which is currently at 4.5% per year. Councilman Dover questioned whether Principal goes back and refigures that amount if there are a few years without any raises. Mr. Franken stated this is a long-term investment return assumption, so it is just an average. Councilman Dover then questioned where they got the 4.5%. Mr. Franken stated he does not know where they got that assumption from.

Mayor Perrin suggested meeting with the actuaries every year to look at the assumptions and change them if needed. Councilman Dover stated they should have had more input into the process to assist with setting the assumptions. Mr. Franken agreed.

Councilman Hargis asked how much was paid out of the plan last year. Mr. Franken stated \$230,000 was paid out to employees with an additional \$30,000 in investment related expenses, making the net outflow \$260,000. He explained there are also 31 people invested in the plan that could retire today and receive benefits, which means the outflow from the plan will increase substantially over the next ten years. They are projecting in 2020 the plan will be paying out \$745,000 per year. He further explained the City is paying a base now that will help make those future payments.

Councilman Dover questioned how much the City would have to pay to become fully funded. Mr. Franken answered the City would pay \$2.5 million since that is the amount of the City's unfunded liability. He added if the City chose to make that payment it would also decrease the City's future payments.

Councilman Dover asked how the actuarial study would be affected if the City changed from Principal to Stephens. Mr. Franken stated a change could be made in the investment return rate.

Further discussion was held concerning the plan.

Councilman Dover motioned, seconded by Councilman Street, to have Mayor Perrin and the Chief Financial Officer meet with the actuarial company and set out the factors that will be used in next year's actuarial study. All voted aye. Mayor Perrin stated he would get that information together and bring it back to the Finance Committee.

COM-10:125

Attorney Chad Oldham to discuss millage resolution

Attorney Chad Oldham, representing the Jonesboro Retired Firefighter's Association, stated they have obtained a third Attorney General's opinion concerning the collection of the yearly millage tax relating to the Fire Pension Fund. He noted Ms. Delores Wicker, a former Finance Department employee, has maintained an accounting for them of the pension fund through information she's received in the City Collector's Office. He stated their information shows \$2.699 million in millage collections. He noted three raises were approved by the City Council.

Mr. Oldham referred to a recent Jonesboro Sun article where Mr. Eagan indicated a shortfall in the next year for the pension. He stated according to their information it reflects a positive balance being held in a subaccount presumably of the General Fund. He asked if the City can account for all the collections since 1997. He then questioned whether the City is in compliance with state law regarding separate maintenance and accounting for those funds. He noted they were denied an increase in pension for 2009 and 2010, so they would like information showing the details of the pension fund in order for them to move forward.

Discussion was held concerning the raises to the retired firefighters. Mr. Oldham referenced an Attorney General's opinion that the millage was intended to fund the old fire pension fund. He added the raises are a matter of fiduciary duty. Mr. Eagan stated it has become obvious that they need to determine if there are any accounts in revenue that were supposed to go towards the unfunded liability of the old fire pension fund. They were hoping to have that process completed this week, but due to other things going on, such as the Springbrook migration, they have not been able to complete the work. They are going to finish up the full accounting and send funds to LOPFI if needed. Mr. Eagan added any problems that are found will be rectified.

6. Public Comments

Mr. Harold Carter questioned whether the unfunded liabilities in the pension funds are reflected in Legislative Audit's reports. Mayor Perrin answered no. Chief Financial Officer Ben Barylske, a former auditor with Legislative Audit, explained Legislative Audit gets a copy of the actuary report and makes sure the payments are being made. He stated the accounts are not co-mingled; rather, they are in one account and are legally reserved. Mr. Barylske stated the contributions are easy to figure out, but the confusion comes in when you look at the state payments made to LOPFI because they will reduce the City's contributions.

7. Adjournment

A motion was made by Councilman John Street, seconded by Councilman Darrel Dover, that this meeting be Adjourned. The motion CARRIED by a Voice Vote.

Aye: 4 - Jim Hargis; John Street; Darrel Dover and Mikel Fears