

CITY OF FRANKLIN
COMMITTEE OF THE WHOLE MEETING*
FRANKLIN CITY HALL – COMMON COUNCIL CHAMBERS
9229 WEST LOOMIS ROAD, FRANKLIN, WISCONSIN
AGENDA**
MONDAY, OCTOBER 3, 2016 AT 6:30 P.M.

1. Call to Order and Roll Call.
2. Review of Mayor's Recommended 2017 Budget (Including all Funds, Departments, Revenues, Expenditures and Activities).
3. City Purchase of Property for Sale (Tax Key Nos. 886-9985-000, 15.1 Acres and 885-9997-000, 10.09 Acres) in the Woodview Neighborhood, in the Vicinity of Planned Public Park Site PN3 in the Comprehensive Outdoor Recreation Plan, for Public Park Purposes. The Committee of the Whole may enter closed session pursuant to §19.85(1)(e), Wis. Stats., to Consider City Purchase of Property for Sale (Tax Key Nos. 886-9985-000, 15.1 Acres and 885-9997-000, 10.09 Acres) in the Woodview Neighborhood, in the Vicinity of Planned Public Park Site PN3 in the Comprehensive Outdoor Recreation Plan, for Public Park Purposes.
4. Adjournment.

*Notice is given that a majority of the Park Commission may attend this meeting to gather information about an agenda item over which the Park Commission has decision-making responsibility. This may constitute a meeting of the Park Commission, per State ex rel. Badke v. Greendale Village Board, even though the Park Commission will not take formal action at this meeting.

**Supporting documentation and details of these agenda items are available at City Hall during normal business hours.

[Note: Upon reasonable notice, efforts will be made to accommodate the needs of disabled individuals through appropriate aids and services. For additional information, contact the City Clerk's office at (414) 425-7500.]

APPROVAL <i>slw.</i>	REQUEST FOR COUNCIL ACTION	MEETING DATE 10/03/2016
REPORTS & RECOMMENDATIONS	Review of Mayor's Recommended 2017 Budget (including all funds, departments, revenues, expenditures, and activities)	ITEM NUMBER <i>2.</i>

In accordance with the approved Budget Preparation Timetable, the Mayor's Recommended 2017 Budget is placed on your agenda for consideration. The following information repeats procedural recommendations as provided in recent years.

Procedural Notations:

1. Typically motions and votes do not occur at the Committee of the Whole as any such action is normally just a recommendation to the full Common Council itself. Motions approved by the Committee of the Whole, in most circumstances, do not have any effect or carry the weight or authority of the Common Council until such motion is subsequently acted upon by the full Common Council at a Common Council meeting. (As such, motions at the Committee of the Whole are very uncommon.)

The Budget review, however, provides for one distinction, as the budget ordinance established a procedure that roughly patterned the prior budget review by the Finance Committee. The ordinance provides for the following:

"Unless otherwise directed by the Common Council, the Mayor's proposed annual budget, as amended by action or actions of the Committee of the Whole, shall be the budget proposal for the public hearing." (Section 13-3)

As such, motions approved at the Committee of the Whole for changes to the Mayor's submitted recommended budget would be reflected in the budget submitted to the Public Hearing. Within the Budget Preparation Timetable, the Common Council set October 14th as the deadline for motions by the Committee of the Whole to be reflected in the Public Hearing document. This deadline does not prohibit the Committee of the Whole or the full Council from continuing to work on budget issues after October 14th if they so wish.

2. Following prior years' pattern, any Alderman wanting to suggest a change to the Recommended Budget should offer a motion in the following manner:

"I move to tentatively amend the Mayor's Recommended 2017 Budget by
[State Action: adding, modifying, striking, increasing, reducing, etc.]
[State location: line item, department, or fund] by
[State amount]
{Optional} for the purpose of [State purpose].

As with prior years, I suggest "tentative" approval because the budget review can often be very fluid with new priorities being identified as you move further into the budget document. Such a process provides for greater flexibility as you move through the document and indicates that the initial, tentative actions may be revisited. Staff will maintain a running record of such tentative recommendations, if any.

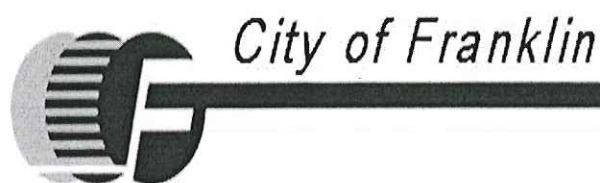
3. The Municipal Code provides as follows: "Upon its review of the proposed budget, the Committee of the Whole shall submit same, together with the Committee of the Whole's recommendations thereon, to the Common Council for its review and approval." (Section 13-2)

As such, after review of all departments and funds, the Committee of the Whole should consider the following motion: "I move to recommend to the Common Council the Mayor's Recommended 2017 Budget along with the previous tentative actions of the Committee of the Whole." [That same motion could end with "as follows" and the summary listing of the remaining tentative actions, if any, could be repeated.]

Attached is a memo from the Finance Director that provides supplemental information on the Defined Benefit Retirement Plan Fund Balance Strategy, which is a \$1,000,000 payment to the pension plan as explained during the budget presentation and as incorporated into the proposed budget as submitted. The memo provides the information reviewed by the Finance Committee and relays the Finance Committee's recommendation on this important matter.

COUNCIL ACTION REQUESTED

Pending review of the budget.



Date: Sept 29, 2016
To: Mayor Olson
Common Council &
Mark Lubberda, Budget Director
From: Paul Rotzenberg, Director of Finance & Treasurer *Paul*
Subject: City of Franklin Defined Benefit Retirement Plan Pension Strategy

The city maintains a defined benefit pension plan for a formerly represented group of employees, called the City of Franklin Defined Benefit Retirement Plan. The City continues to maintain the pension plan for employees in the Highway, Sanitary Sewer, Water, and some Municipal Building employees.

The Plan is not fully funded, meaning not all the assets are in a Trust to pay benefits for service already provided to the City. The City has funded the Trust using a common method of contributing the Annually Required Contribution as determined by an actuary. This computation has the City contributing cost for current year service as well as a portion of prior service cost which was not previously funded – the unfunded liability. The 2015 Actuarial report for this plan, noted an Actuarial Accrued Liability of \$8,013,087, and unfunded liability of \$1,144,559. Approximately 25% of the \$8 million relates to former employees already drawing benefits, and approximately 75% of the balance related to service by active employees. Copy of the Actuarial Report pages attached.

Approximately two thirds of the annual payment (Actuarial Determined Contribution - ADC) relates to General Fund participants, with the balance split equally between the two Utilities.

The General Fund reflects its share of the ADC as the pension cost. (In the Government wide statements included in the CAFR, the ADC is a cash flow issue, and the expense is actuarially determined based upon current services, the trust's investment performance compared to expected results and operating costs.)

Annually, an actuary determines a required contribution (ADC, formerly known as the ARC) which is composed of three pieces, \$197,920 being the normal cost (paying for the 2015 service), \$119,028 to fund prior service costs and \$22,979 to cover the cost of making the contribution other than at Jan 1 of the year. The prior service cost contributions reduce the unfunded liability.

Analysis

Staff is recommending that \$1 million of a January, 2017 payment from MMSD be used to retire a portion of the unfunded liability. This would accomplish two objectives:

1. As a portion of the payment would be expended by the General Fund, it would reduce fund balance. That would reduce fund balance below the upper threshold set by the Fund Balance policy without incurring recurring costs.
2. This would reduce the 2017 ADC by approximately \$67,000, and help reduce the 2017 and future General Fund expenditure budgets. The payment will also reduce the amount the Sanitary Sewer and Water Funds need to contribute by an approximate total of \$33,000.

Upon making the \$1 million contribution, much of the prior service cost of the ADC goes away. Staff has discussed this plan with Principal Investment advisors who have confirmed that the plan will achieve the desired result.

2017 and future years ADC's will be reduced by approximately \$100,000 (Principal estimated this amount up to \$133,000). That amount will change over time, the primary reason being the investment results on the \$1 million contribution compared to the actuary's expected results. If investment results are better than expected, the ADC will decline further; should investment results be worse than expected, additional ADC future payments will be needed. Importantly, both of the former statements are true with or without the \$1 million contribution, as the City (plan sponsor) is responsible for the benefit payments regardless of investment returns.

Principal noted that other plan sponsors have used this tactic, but have borrowed the lump sum payment, thus incurring interest costs. The City looks brilliant should the investments performance exceed expectations. Conversely, they were then criticized when the investments lost market value. This can be partially mitigated by instructing Principal, the investment advisor, to initially more conservatively invest the lump sum payment, rather than using the current asset allocation. Because the City is utilizing excess Fund Balance, the risk is related to opportunity cost and not borrowed funds.

Options

Make the advance lump sum payment

Or

Continue with the higher ADC's. This option comes with other issues, such as:

1. How then to balance the 2017 budget with a higher ADC
2. How to address the excess fund balance with other expenditure plans

Fiscal Impact

The General Fund will advance a portion of the payment equal to the Sanitary Sewer and Water Fund participation in the plan to those funds. The advance will be repaid to the General fund over a nine year period in equal installments.

The \$1 million payment in 2017 will reduce General Fund balance by approximately \$670,000, and reduce the 2017 DPW Defined Benefit Plan ADC. The advance to the Sanitary Sewer and Water Fund also reduces the General Fund balance (the advance becomes Non-Spendable until the funds are repaid). This helps the City move fund balance into compliance with the Fund Balance policy.

Recommendation

The Finance Committee reviewed this proposal and recommends making the \$1 million lump sum payment on The City of Franklin Defined Benefit Plan unfunded liability upon receipt of the MMSD note payment.

Development of Total Normal Cost

Normal cost is the portion of cost assigned to each year based on the cost method and assumptions shown in this report. The normal cost may be shared by the employer and the employees based on plan provisions.

Normal cost	\$172,920
Plus estimated expenses	25,000
Total Normal Cost	\$197,920
Projected compensation for the current year	1,638,782
Total Normal Cost as a percentage of member compensation	12.08%

Actuarial Accrued Liability

The Actuarial Accrued Liability (AAL) is the targeted asset level for the plan and is used in the calculation of the Unfunded Actuarial Accrued Liability on the following page. The AAL below is the amount after any assumption or plan changes.

Active participants	\$5,877,760
Inactive participants	63,128
Participants and beneficiaries in pay status	2,072,199
Actuarial Accrued Liability	\$8,013,087

Funding Calculations

Unfunded Actuarial Accrued Liability

Each year the Unfunded Actuarial Accrued Liability (UAAL) is calculated and equals the Actuarial Accrued Liability less the Actuarial Value of Assets. An experience gain or loss occurs when actual plan experience differs from what was assumed. The gain or loss is calculated separately and amortized as a charge (for a loss) or a credit (for a gain). The UAAL is then adjusted for amendments, assumption changes, or method changes and a liability base is created.

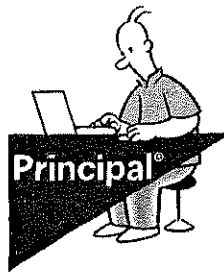
Expected Unfunded Actuarial Accrued Liability		
01/01/2014 Unfunded Actuarial Accrued Liability (UAAL)	\$886,208	
01/01/2014 Employer Normal Cost	182,966	
Interest on the above items	80,188	
Total Expected UAAL without Contributions		\$1,149,362
Employer contributions	\$293,632	
Interest on employer contributions	5,680	
Total Contributions with interest		\$299,312
Expected 01/01/2015 Unfunded Actuarial Accrued Liability (Total Expected UAAL less Contributions with interest)		\$850,050

Actual Unfunded Actuarial Accrued Liability (before any changes)		
Actuarial Accrued Liability	\$7,787,261	
Less Actuarial Value of Assets	6,868,528	
Preliminary 01/01/2015 Unfunded Actuarial Accrued Liability		\$918,733

Experience (Gain) or Loss		
Actual Unfunded Actuarial Accrued Liability	\$918,733	
Less Expected Unfunded Actuarial Accrued Liability	850,050	
(Gain) Loss		\$68,683
2014 Actuarially Determined Contribution	\$293,632	
Less Total Contributions with interest	299,312	
Additional (Gain)/Loss from (excess) shortage of contributions		\$(5,680)
Total experience (gain) or loss		\$63,003

Final Unfunded Actuarial Accrued Liability (after any changes)		
Actuarial Accrued Liability after assumption changes	\$8,013,087	
Less Actuarial Value of Assets	6,868,528	
01/01/2015 Unfunded Actuarial Accrued Liability after changes		\$1,144,559

Funding Calculations



Funding Calculations

Actuarially Determined Contribution

The actuarially determined contribution (ADC) includes two primary components. First, the Normal Cost is the cost attributed to the current year, due to the continued accrual of plan benefits for active employees, and plan expenses.

The second main component is an amortization of any unfunded accumulated past costs (Unfunded Actuarial Accrued Liability).

The sum of these two components is then increased for interest to the end of the plan year.

Total Normal Cost	\$197,920
Plus Amortization Amounts	119,028
Plus valuation interest to the end of the plan year	22,979
Actuarially Determined Contribution (ADC)	\$339,927

Census Characteristics

	01/01/2014	01/01/2015	Change
Number of Covered Participants			
Actives	31	32	+1
Terminated Vested	6	5	-1
Disabled	0	0	+0
Retirees	15	17	+2
Total	52	54	+2

Average Age			
Actives	50.4	51.2	+0.8
Terminated Vested	53.6	53.5	-0.1
Disabled	N/A	N/A	N/A
Retirees	72.7	72.2	-0.5
All	57.2	58.0	+0.8

Reported Annual Payroll			
Actives	\$1,763,439	\$1,854,884	+5.2%
Average Pay Per Active	56,885	57,965	+1.9%

Average Years of Service			
Actives	17	17	+0.0%

Monthly Projected Retirement Benefits			
Actives	\$108,031	\$105,462	-2.4%
Terminated Vested	1,150	710	-38.3%
Disabled	0	0	+0.0%
Retirees	11,630	17,325	+49.0%

The monthly projected retirement benefit for actives was calculated at Normal Retirement Age (current age if later) with projected service and projected salaries.

Data and Assumptions

APPROVAL <i>slw</i>	REQUEST FOR COMMITTEE OF THE WHOLE	MEETING DATE 10/3/16
REPORTS & RECOMMENDATIONS	CITY PURCHASE OF PROPERTY FOR SALE (TAX KEY NOS. 886-9985-000, 15.1 ACRES AND 885-9997-000, 10.09 ACRES) IN THE WOODVIEW NEIGHBORHOOD, IN THE VICINITY OF PLANNED PUBLIC PARK SITE PN3 IN THE COMPREHENSIVE OUTDOOR RECREATION PLAN, FOR PUBLIC PARK PURPOSES.	3.

At the September 20, 2016 meeting of the Common Council, this item was tabled to the October 3, 2016 Committee of the Whole meeting.

At the September 6, 2016 meeting of the Common Council, this item was tabled.

At the August 8, 2016, meeting of the Park Commission, the following action was approved: move to recommend to the Common Council to purchase two (2) parcels located at Tax Key Nos.: 886-9985-000 and 885-9997-000 in the vicinity of Woodview Neighborhood Park as identified in the Comprehensive Outdoor Recreation Plan and Comprehensive Master Plan.

The Common Council may enter closed session pursuant to Wis. Stat. § 19.85(1)(e), to consider the potential acquisition of property for public park purposes in the general southwest area of the City and to reenter open session at the same place thereafter to act on such matters discussed therein as it deems appropriate.

COUNCIL ACTION REQUESTED

A motion to enter closed session pursuant to Wis. Stat. § 19.85(1)(e), to consider the potential acquisition of property for public park purposes in the general southwest area of the City and to reenter open session at the same place thereafter to act on such matters discussed therein as it deems appropriate.

Or,

Action on the above item as the Common Council deems appropriate