



Meeting Location
City of DeKalb Police Department
Training Room, 2nd Floor
700 West Lincoln Highway
DeKalb, Illinois 60115

AGENDA
Finance Advisory Committee
March 27, 2018
5:00 p.m.

1. Call to Order
2. Roll Call for Attendance
3. Public Participation
4. Approval of Minutes
 - a. Minutes of the Finance Advisory Committee Meeting of February 27, 2018
5. Financial Policy Review and Recommendation
6. Pension Funding Illustrations Review
7. Confirm Next Meeting Date and Time
 - a. Tuesday, April 24, 2018 at 5:00 p.m. at the Police Department Training Room, 2nd Floor
8. Adjournment

This meeting will be video recorded

The Finance Advisory Committee's role (as listed in Chapter 54-11) is to provide well-reasoned, financially sound recommendations to the Council. Meetings and reporting shall be on a project-by-project basis or as otherwise assigned by the City Council. The Finance Advisory Committee shall work in cooperation with the City Council and the City Manager to analyze the City's financial policies, long term financial stability, options for greater efficiencies and possible revenue and expenditure modifications.

**MINUTES
CITY OF DEKALB
FINANCE ADVISORY COMMITTEE MEETING
FEBRUARY 27, 2018**

1. CALL TO ORDER

The Finance Advisory Committee held a meeting on February 27, 2018, in the Police Training Room, at the DeKalb Police Department, 700 W. Lincoln Highway, DeKalb, Illinois.

The meeting was called to order at 5:01 p.m. by Chair Peddle.

2. ROLL CALL

Deputy City Clerk Carri Parker called roll, and the following members of the Finance Advisory Committee were present: Tom Teresinski, Lynn Neeley, Steve Parker, Ron Partch and Chair Mike Peddle.

Also present were: City Manager Anne Marie Gaura, Finance Director Molly Talkington, and Deputy City Clerk Carri Parker.

3. PUBLIC PARTICIPATION

Chair Peddle asked if there was anyone from the public present who wished to speak.

No one from the public was present.

4. APPROVAL OF MINUTES

a. Minutes of the Finance Advisory Committee of January 30, 2018.

Chair Peddle asked for a motion to approve the Minutes of the Finance Advisory Committee of January 30, 2018.

MOTION

Committee Member Teresinski motioned to approve the minutes of January 30, 2018; seconded by Committee Member Neeley.

VOTE

Motion carried on a 5-0-1 voice vote. Aye: Teresinski, Neeley, Parker, Partch and Peddle. Not Present: Conlin.

5. CITY COUNCIL GOALS

Finance Director Talkington updated the Committee on the City Council's goal setting session in January and February. She pointed out that there were three items that will guide the budget decision making in the future meetings.

1. Short-term goal: Reduce Operating Costs
2. Long-term goal: Address Pension Obligation
3. Long-term goal: Street Funding

Chair Peddle added that the memo contains a definition of simple and complex to assist in future discussions and asked the committee to discuss the goals provided.

Committee Member Neeley stated that she was appreciative of the assistance the Council was receiving to start the process. She agreed that the three goals presented are good.

Committee Member Partch stated that he was fine with the goals provided.

City Manager Gaura responded that staff will need to look back at the 2020 Strategic Plan. She added that the Council is focusing on how to increase residential growth.

The Committee and staff discussed the variety of retail changes throughout the DeKalb area and how it has affected the economy for DeKalb.

Committee Member Partch stated that it feels like the City is going backwards as we are losing more and more retail businesses.

Chair Peddle stated that the agenda memo provides statistics showing the decline in retail.

Committee Member Parker stated that how the goals are divided and added that growth and crime go hand in hand. He added that the perception of the City may be affecting the City's growth.

A discussion ensued with the Committee regarding the crime changes throughout the City.

Committee Member Teresinski addressed the three goals assigned and stated that they are great goals to focus on.

Chair Peddle stated that the Committee needs to be realistic that the community will make progress paying down the pension liability. He added that the pension obligations should not dictate the operations.

Committee Member Teresinski asked that the actuarial report included the assumptions assuming that they are correct and provide a five-year obligation projection.

A discussion ensued between Committee members and staff with regard to the actuarial report.

Chair Peddle requested that Director Talkington contact the actuary to see if the report can be updated to include the five-year projections and distributed to the Committee for review.

4. FIVE-YEAR FINANCIAL PLAN UPDATE

Chair Peddle noted that Finance Director Talkington, Account Technician III Carri Parker, and himself put together information by looking back at previous meeting minutes, recordings, and notes, to locate items needed to add to the five-year financial plan update.

Finance Director Talkington requested that the Committee go through the information added to ensure that information is still relevant.

The Committee discussed each item to determine if the item needed to be added to the five-year financial plan.

1. Add two comparable governments
 - a. Town of Normal, IL (home rule) to the University cities comparisons
 - b. City of Rochelle, IL (non-home rule) to the standard comparisons

The Committee agreed to not include the City of Rochelle.

2. Incorporate the statistical information from the Comprehensive Annual Financial Report (CAFR) into the Plan
 - a. Top Ten Employers, Taxable Sales by Category, & Direct and Overlapping Sales Tax Rates

The Committee agreed to include statistical information from the Comprehensive Annual Financial Report (CAFR) into the Plan.

3. Expand the school data
 - a. Add enrollment breakdown and school lunch stats (Possible sources – Illinois Interactive Report Card and the Schools themselves)
 - b. Add St. Mary's school
 - c. Compare the school data trends with population trends

Committee Member Neeley requested that school lunch program be included as it will provide income levels and indicate service demand that is expected to help serve these particular families.

Chair Peddle stated that the annual stats from the school district will assist in the demographics and will pinpoint if there is something standing out for someone not to move to DeKalb based on the interactive report card.

The Committee discussed the value of having the Interactive Report Card information and how it can relate to the City's financial information.

The Committee agreed to include the school data.

4. Include crime statistics and show impact on economic factors such as housing
 - a. Possible sources – Annual Police Department Report and Recent Studies

The Committee agreed to include the Police Department Annual Report and Federal Bureau of Investigation (FBI) reports.

5. Track the current home value over time (Possible source – Real Estate websites (ex. Zillow)

The Committee discussed the pros and cons to including the current home values.

The Committee agreed to keep the home values.

City Manager Gaura left the meeting permanently at 6:38 p.m.

6. Add the Pension Funding Analysis data that shows what the remaining obligation is if Police and Fire Departments were eliminated as of January 1, 2018

No further discussion was made on this item.

7. Add staffing history for the City

The Committee agreed to include the staffing plan.

Committee Member Teresinski added that he would like to see efficiency. He asked to see a City that has been able to get ahead of operational debt and compare to what the City of DeKalb can incorporate.

Finance Director Talkington stated that the revenues are listed within the Five-Year Financial Plan and that the City Council is determining the service levels during their monthly budget meetings.

Capital Asset Policy

Policy Number: 01-06

Date: January 9, 2017

Purpose: Capital assets purchased or acquired with an original cost of \$25,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. General capital assets are long-lived assets of the City as a whole. Infrastructure such as streets, traffic signals and signs are capitalized. In the case of the initial capitalization of general infrastructure assets (i.e., those reported by the governmental activities) the government chose to include all such items regardless of their acquisition date. The valuation basis for general capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement costs.

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation bases for proprietary fund capital assets are the same as those used for the general capital assets. Donated capital assets are capitalized at estimated fair market value on the date donated.

Depreciation on all assets is computed and recorded using the straight-line method of depreciation over the following estimated useful lives:

Buildings and Building Improvements	40 to 50 Years
Equipment	10 to 20 Years
Vehicles	3 to 20 Years
Infrastructure	25 to 50 Years
Water Distribution System	40 to 65 Years

~~When capital assets are purchased with the use of federal funds, this will be noted within the City's financial software on the asset record which includes data such as asset funding, acquisition and disposition date, and sale price. the following procedures will be completed by the City. Administration of these procedures will be the responsibility of the City's Finance Director and the Finance Director will sign off that these procedures have been adhered to for the purchase of every federal funded capital asset. These procedures are as follows:~~

~~Capital assets purchased with federal funds will be tagged with a special notation of "F" in addition to the regular identification number system used by the City.~~

~~The description of the capital asset in the City's capital asset records will also include the words "federally funded" before the description of the specific asset acquired.~~

~~The source of federal funds must be noted and include a description of who holds title to the assets, along with the asset acquisition date, the asset cost, location of the asset, condition and use/purpose of the asset.~~

~~The portion of the asset that is federally funded must also be noted in the City's capital asset records. Upon disposition of any federally acquired assets, the City must note in the capital asset records the disposition date and sale price.~~

A physical inventory of all assets acquired with federal funds will be performed on a biennial basis. The results of the City's inventory of federally funded capital assets will be reconciled to the City's capital asset records to ensure accuracy. This inventory will be overseen and approved by the City's Finance Director.

Capital Equipment Replacement Fund Policy

Policy Number: 01-03

Date: December 11, 2017

Purpose: The City of DeKalb has established the Capital Equipment Replacement Fund (CERF) to encourage departments to set aside funds each year for the eventual replacement of existing equipment, including vehicles, and to avoid significant fluctuations in the operating budget from one year to the next. In order to build and maintain sufficient funds on hand to replace items at the end of their useful life, water tower rental income, revenue received from the E911 Board ~~for OSSI payments~~ will be dedicated annually as well as, transfers by each department from the General Fund determined annually through the budget process. The remainder of this policy is intended to provide guidance as to how the CERF will operate.

The Capital Equipment Replacement Fund shall be used only to replace existing equipment owned by the City which includes the vehicles in the City's fleet. The fund shall not be used to purchase equipment not currently owned by the City or as a means to circumvent the process for having new equipment approved by the City Council. Requests for new equipment shall be made as part of the annual operating budget and must be approved by the City Council before acquisition;

Only those items which individually have a replacement cost of more than \$10,000 or groups of similar equipment (e.g. personal computers, bullet proof vests, etc.) which, in the aggregate, exceed \$10,000 with a useful life of more than one year shall be included in the CERF. Departments shall include individual items or groups of items with a value of less than \$10,000 in their annual operating budget.

The cost of items associated with new vehicles such as vehicle markings, light bars, radios and similar equipment shall be included in the replacement cost of the vehicle. The replacement cost and useful life for each vehicle or technology related equipment will be reevaluated by the individual departments on an annual basis. This re-evaluation may change the annual amounts that programs contribute for the replacement of each item. The Department Head, in consultation with the City Manager and the Finance Director shall determine when a vehicle or equipment is due for replacement. Final capital asset replacement decisions using CERF monies will be discussed and approved by the City Council as part of the annual budget process. When CERF equipment is sold, the proceeds of the sale shall be credited to the CERF Fund.

From time to time, departments may be assigned previously used technology related equipment from within their department or another department in the City. The Director of Information Technology, in consultation with the Department Head, shall recommend

that such equipment be assigned to a department when it meets the department's needs and when doing so will help avoid the expense of purchasing new equipment. Consideration shall be given to the annual operating cost of maintaining the used equipment when deciding whether or not to continue using it. The City Manager shall have the final say in determining whether or not previously used technology is assigned to a department.

DATE: March 21, 2018

TO: Mike Peddle, Chair
Finance Advisory Committee

FROM: Anne Marie Gaura, City Manager
Molly Talkington, Finance Director

SUBJECT: Financial Policies Review – Investment Policy (01-08)

I. Summary:

The City Council adopts financial policies that establish the framework for the services provided by the City of DeKalb. Currently, there are a total of eight adopted policies. Annually, the policies are reviewed and adopted as part of the budget. As part of the Fiscal Year (FY) 2019 budget process, the Finance Advisory Committee (FAC) has been tasked to conduct a review of all the policies and, if needed, recommend revisions to them for City Council consideration. The FY 2019 schedule has outlined four meetings for review of the policies (February through May 2018). The policies for review at this meeting are the Capital Equipment Replacement Fund (01-03), Accounting, Auditing, and Financial Reporting Policy (01-05), and the Capital Asset Policy (01-06).

II. Background:

Prior FAC Action

- On [January 30, 2018](#), FAC reviewed the Fiscal Year (FY) 2019 Budget Schedule, Five-Year Financial Plan draft, approved a Committee Operations Policy.
- On [February 27, 2018](#), FAC reviewed City Council's Goals, recommended revisions to the Five-Year Financial Plan, and recommended revisions to these policies:
 - Capital Equipment Replacement Fund (01-03),
 - Accounting, Auditing, and Financial Reporting Policy (01-05), and
 - Capital Asset Policy (01-06).

Investment Return Policy (01-08)

The FY 2018 budget was the most recent year of the annual review and adoption of the Investment Policy (01-08) as part of the annual budget adoption. FAC is tasked with review and, if needed, recommend revisions to this policy. Any revisions will be

considered by City Council as part of the FY 2019 budget process. The Investment Policy is to invest public funds in a manner that will conform to state statute, maximize security, meet daily cash flow demands, and attempt to attain a market rate of return. The Finance Director is recommending a change to 6.3 Financial Reporting section as shown below and included in Attachment A (track changes).

The Finance Director or his/her designee shall prepare a monthly investment and bank balance report for City Council that provides:

- *Cash balances held at the end of the month;*
- *A listing of individual securities and corresponding maturities held at the end of the reporting period;*
- *The percentage of the total portfolio which each type of investment represents;*
- ~~*Inception-to-date yields for each individual security;*~~
- ~~*Average weighted inception-to-date yield to maturity of the entire portfolio as compared to applicable benchmarks.*~~

Removal of the last two bullet points does not materially change the intent of the policy. The revisions remove two manual workload items that were performed by a position that is no longer part of the Finance Department structure and to date have not been absorbed by another position due to current workload demands within the department. Additionally, these two bullet points produce information that remains technical in nature and is difficult to translate into non-technical terms. The policy still contains performance standards (6.4) for Finance to reach as shown below and this section is recommended to remain intact.

This investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should attempt to obtain a comparable rate of return during a market/economic environment of stable interest rates. The portfolio performance should be benchmarked to the return of the 90-day Treasury bill.

III. Recommendation:

Staff is recommending the FAC review the existing policy, review the Finance Director's revisions, and discuss and recommend any other revisions the Committee would like to see to this policy.

Attachments:

A) Investment Policy (01-08) Track Changes



Investment Policy

Policy Number: 01-08

Date: January 9, 2017

Purpose:

A. Policy

It is the policy of the City of DeKalb to invest public funds in a manner that will conform to state statute, maximize security, meet daily cash flow demands, and attempt to attain a market rate of return.

B. Scope

This policy includes all funds governed by the City Council and, except for cash in certain restricted funds, the City of DeKalb will consolidate cash balances to maximize investment earnings. Investment income will be allocated to the various individual funds based on their respective participation. Interest income derived from non-fund specific consolidated bank accounts will be attributed to the General Fund.

C. Objectives

The primary objectives of the City of DeKalb's investment activities are, in order of priority:

- 1) **Safety of principal** Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio, while mitigating credit and interest rate risks, as defined below:
 - a) **Credit Risk**, that is, the risk of loss due to the failure of the security issuer or backer. It may be mitigated by:
 1. Limiting investments to the safest types of securities;
 2. Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the City will do business; and
 3. Diversifying the investment portfolio so that potential losses on individual securities will be minimized.
 - b) **Interest Rate Risk**, that is, the risk that the market value of securities in the portfolio will fail due to changes in general interest rates. It may be mitigated by:
 1. Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity, and
 2. By investing operating funds primarily in shorter-term securities
- 2) **Liquidity**, so as to meet all operating requirements that may be reasonably anticipated, the portfolio shall consist largely of securities with active secondary or resale markets (dynamic liquidity).

- 3) Yield**, with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of least importance compared to the safety and liquidity objectives described above. The core of investments shall be limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to maturity with the following exceptions:
- a) a declining credit security could be sold early to avoid loss of principal;
 - b) a security swap would improve the quality, yield, or target duration in the portfolio; or,
 - c) liquidity needs of the portfolio require that the security be sold.

D. Standards of Care

1) Prudence

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers and employees of the City of DeKalb, while acting in good faith in accordance with this investment policy and any written procedures as might be established, shall be relieved of personal liability for an individual security's credit risk or market price changes.

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

2) Ethics and Conflicts of Interest

City of DeKalb employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. They shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of their entity.

3) Delegation of Authority

Authority to manage the investment program is granted to the authorized municipal official described in Chapter 54 of the DeKalb Municipal Code. Responsibility for the operation of the investment program is hereby delegated to the Finance Director or his/her designee, who shall carry out established written procedures and internal controls for the operation of the investment program consistent with this investment policy. These procedures shall include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements collateral/depository agreements and banking services contracts. All investments shall

follow the investment plan designed and approved by the Finance Director or his/her designee prior to execution.

No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the DeKalb City Council. The Finance Director, as Chief Financial Officer, shall be accountable for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

E. Safekeeping and Custody

All trades where applicable will be executed by Delivery vs. Payment (DVP). This shall ensure that securities are deposited in the eligible financial institution prior to the release of funds. Securities will be held by a third party custodian as evidenced by safekeeping receipts.

F. Authorized Financial Dealers and Institutions

A list shall be maintained of financial institutions authorized to provide investment services to the City of DeKalb, as well as a list of approved security broker/dealers (or their respective custodial clearing firm) selected for creditworthiness (minimum capital requirement of \$10,000,000 and at least five years of operation). These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission rule 15C3-1 (uniform net capital rule).

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the following (as appropriate):

- 1) audited financial statements
- 2) proof of National Association of Securities Dealers (NASD) certification
- 3) proof of state registration
- 4) completed broker/dealer questionnaire
- 5) certification of having read the City of DeKalb's investment policy and that all investments will comply with the policy

An annual review of the financial condition and registration of qualified bidders will be conducted by the Finance Director or his/her designee.

G. Internal Controls

The Finance Director or his/her designee is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Accordingly, the Finance Director or his/her designee shall establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

1. Prevention of collusion

- 1 Separation of transaction authority from accounting and record keeping.
- 2 Custodial safekeeping (Securities purchased from any bank or dealer including appropriate collateral, as defined by State Law, shall be placed with an independent third party for custodial safekeeping).
- 3 Avoidance of physical delivery securities.
- 4 Clear delegation of authority to subordinate staff members.
- 5 Written confirmation of telephone transactions for investments and wire transfers (may be via fax if on letterhead and the safekeeping institution has a list of authorized signatures).
- 6 Development of a wire transfer agreement with the lead bank or third party custodian, which shall outline the various controls, security provisions, and delineate responsibilities of each party making and receiving wire transfers.

a) **Suitable and Authorized Investments**

Investment Types

Consistent with the GFOA Recommended Practice on State Statutes Concerning Investment Practices, the following investments will be permitted by this policy and are those defined by state law where applicable:

1. U.S. Government obligations, U.S. Government agency obligations, and U.S. Government instrumentality obligations
2. Repurchase agreements
3. Certificates of deposit
4. Savings and loan association deposits
5. Investment-grade obligations of state, provincial and local governments and public authorities
6. Money market mutual funds regulated by the Securities and Exchange Commission and whose portfolios consist only of domestic securities
7. Statewide investment pools

Use of repurchase agreements should be consistent with GFOA Recommended Practices on Repurchase Agreements (see attached "GFOA Recommended Practices").

Consistent with the GFOA Recommended Practice on Use of Derivatives by State and Local Governments, extreme caution shall be exercised in the use of derivative instruments (see attached "GFOA Recommended Practices").

From time to time, the City may choose to invest in instruments offered by minority and community financial institutions. These financial institutions may not meet all the criteria under this section. All terms and relationships will be fully disclosed and

authorized by the City Manager prior to purchase and shall be consistent with state or local law.

b) Collateralization

Funds on deposit (checking accounts, certificates of deposit, etc.) in excess of FDIC or SIPC limits, excluding interest, must be secured by some form of collateral, witnessed by a written agreement (see the attached "GFOA Recommended Practices"). Pledged collateral shall be held in safekeeping by the Federal Reserve Bank of Chicago (or other independent third party designated by the Finance Director or his/her designee) in the name of the municipality. In addition, the value of the pledged collateral must be marked to market monthly, or more frequently depending on the volatility of the collateral pledged. Last, the City requires that the amount of collateral pledged equal 110% of the uninsured amount on deposit.

6.1 Diversification

The City of DeKalb shall attempt to diversify its investments appropriate to the nature of the funds, the purpose for the funds, and the amount available to invest. Diversification can be by type of investment, number of institutions invested in, and length of maturity.

6.2 Maximum Maturities

To the extent practicable, the City of DeKalb shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City of DeKalb will not directly invest in securities maturing more than 3-years from the date of purchase.

Reserve funds may be invested in securities exceeding 3-years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the funds.

Regardless of the foregoing, no funds may be invested in securities maturing in excess of 7-years from the date of purchase unless authorized by the City Council.

6.3 Reporting

The Finance Director or his/her designee shall prepare a monthly investment and bank balance report for City Council that provides:

- Cash balances held at the end of the month;
- A listing of individual securities and corresponding maturities held at the end of the reporting period;
- The percentage of the total portfolio which each type of investment represents;
- ~~Inception-to-date yields for each individual security;~~
- ~~Average weighted inception-to-date yield to maturity of the entire portfolio as compared to applicable benchmarks.~~

6.4 Performance Standards

This investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should attempt to obtain a comparable rate of return

during a market/economic environment of stable interest rates. The portfolio performance should be benchmarked to the return of the 90-day Treasury bill.

1.14 Investment Policy Adoption

The investment policy shall be adopted by the City Council.

1.15 Policy Exemption and Amendment

Exemption

Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

Amendment

This policy shall be reviewed on an annual basis. Any changes must be approved by the City Manager and any other appropriate authority, as well as the individual(s) charged with maintaining internal controls.

DATE: March 21, 2018

TO: Mike Peddle, Chair
Finance Advisory Committee

FROM: Anne Marie Gaura, City Manager
Molly Talkington, Finance Director

SUBJECT: Pension Funding Illustrations

I. Summary:

At the October 5, 2017, Finance Advisory Committee (FAC) meeting, Chair Peddle wanted to determine the existing funding obligation to the City without consideration of any additional future obligations as of January 1, 2018. At the February 27, 2018, FAC meeting, Finance Director Talkington informed the committee that she had received the illustrations for both Police and Fire Pension Funds from Foster and Foster, the City's Actuary. This report outlines the methodology, assumptions, and the outcome of the actuary's illustrations.

II. Background:

The City's actuary, Foster and Foster, created two illustrations, one for Fire and one for Police Pension funds, that would show the existing funding obligation of the City without consideration of any additional future obligations as of January 1, 2018. These illustrations show that there is still a significant pension obligation to the City of \$57 million over a 30-year period to pay off the liabilities that have been accrued as of January 1, 2018.

Methodology and Assumptions

- 1) Year 0 will match the 1/1/2017 Valuation Results. Assuming no consideration of additional future liability as of 1/1/2018, no differences occur until Year 1.
- 2) This assumes that the full 2017 contribution will be contributed to the fund.
- 3) This also assumes that all contributions will be made in full each year.
- 4) It is assumed that all actuarial assumptions come true. The methods and assumptions are identical to those disclosed in the 1/1/2017 actuarial valuations.

This includes an interest rate of 7.50%, payroll growth of 4.50% and payment period as of 1/1/2017 of 24 years on the unfunded liability.

- 5) Experience between the two illustrations, Fire and Police Pension Funds, are assumed to be identical. In reality, it is possible that the pension funds would experience retirements at different points in time. For example, a short-term retirement, not currently considered in the illustrations, would have an impact on the calculation, likely resulting in a loss (i.e., slightly higher contributions that are illustrated, which would reduce the savings).
- 6) The administrative expenses are assumed to grow with inflation at 2.50%. These expenses are adjusted downward to reflect the assumption of no additional future obligations.
- 7) Under the ongoing plan calculations, normal cost is assumed to be the same percentage of payroll over the entire period.
- 8) Payroll is expected to grow with the assumption of 4.50%. Again, this amount could be lower if payroll increases over the 30-year period are lower than 4.50% per year. If that were true, the difference in the savings would be lower since normal cost would be decrease for the 30-year period.

Outcome

The attached illustrations show the impact on the respective pension funds without any additional future obligations as of January 1, 2018. While there are some savings from doing so, the illustrations show that the obligation to pay off past accruals remains for some time into the future. Running the impact out over 30-years and discounting the resulting savings back to January 1, 2018 using the valuation interest rate of 7.50%, the estimated savings over the 30-year period are as follows:

- Fire Pension Fund = \$25.1 million
- Police Pension Fund = \$18.9 million

However, there is still a significant contribution that needs to be realized over this period to pay off the liabilities that have been accrued to date. As of January 1, 2018, it is estimated that the City would still owe the following unfunded liability amounts on the pension funds, assuming no additional future obligations. These are the unfunded amounts for benefits that have been accrued as of January 1, 2018:

- Fire Pension Fund = \$29.8 million
- Police Pension Fund = \$27.2 million

III. Recommendation:

The illustrations, Fire Pension Fund (Attachment A) and Police Pension Fund (Attachment B), are information per Chair Peddle's request and for review by the FAC.



Department Illustration - DeKalb Fire

Ongoing Department Calculation									No Additional Future Obligations Calculation								Savings	
Year	Contribution Calculation								Contribution Calculation								Annual Savings	Present Value of Annual Savings as of 1/1/2018
	Projected Payroll of Ongoing Fund	UAAL Balance at EOY	Payment on Unfunded	Normal Cost	Administrative Expenses	Employee Contributions	Interest	Total Contribution as of EOY	Projected Payroll of Ongoing Fund	UAAL Balance at EOY	Payment on Unfunded	Normal Cost	Administrative Expenses	Employee Contributions	Interest	Total Contribution as of EOY		
0	4,895,248	40,212,005	2,244,390	1,112,861	35,080	(462,846)	254,425	3,183,910	4,895,248	29,828,370	2,244,390	1,112,861	35,080	(462,846)	254,425	3,183,910	0	0
1	5,115,534	40,706,614	2,345,387	1,162,940	35,957	(483,674)	265,821	3,326,431	0	30,195,260	1,739,756	0	34,706	0	133,085	1,907,547	1,418,884	1,319,892
2	5,345,733	41,124,860	2,450,930	1,215,272	36,856	(505,439)	277,729	3,475,348	0	30,505,506	1,818,045	0	34,613	0	138,949	1,991,607	1,483,741	1,283,929
3	5,586,291	41,455,912	2,561,222	1,269,959	37,777	(528,184)	290,172	3,630,946	0	30,751,073	1,899,857	0	35,149	0	145,125	2,080,131	1,550,814	1,248,344
4	5,837,674	41,687,893	2,676,477	1,327,107	38,721	(551,952)	303,173	3,793,526	0	30,923,151	1,985,351	0	35,354	0	151,553	2,172,258	1,621,268	1,214,006
5	6,100,370	41,807,798	2,796,918	1,386,827	39,689	(576,790)	316,758	3,963,402	0	31,012,094	2,074,692	0	35,548	0	158,268	2,268,508	1,694,894	1,180,593
6	6,374,886	41,801,395	2,922,779	1,449,235	40,681	(602,745)	330,952	4,140,902	0	31,007,344	2,168,053	0	36,436	0	165,337	2,369,826	1,771,077	1,147,590
7	6,661,756	41,653,122	3,054,304	1,514,450	41,698	(629,869)	345,784	4,326,367	0	30,897,359	2,265,615	0	36,259	0	172,641	2,474,515	1,851,852	1,116,213
8	6,961,535	41,345,977	3,191,748	1,582,600	42,740	(658,213)	361,282	4,520,157	0	30,669,526	2,367,568	0	36,794	0	180,327	2,584,689	1,935,468	1,085,221
9	7,274,804	40,861,396	3,335,377	1,653,817	43,809	(687,833)	377,475	4,722,645	0	30,310,074	2,474,108	0	37,333	0	188,358	2,699,799	2,022,846	1,055,083
10	7,602,170	40,179,121	3,485,469	1,728,239	44,904	(718,785)	394,396	4,934,223	0	29,803,978	2,585,443	0	37,485	0	196,720	2,819,648	2,114,575	1,025,979
11	7,944,268	39,277,067	3,642,315	1,806,010	46,027	(751,131)	412,076	5,155,297	0	29,134,854	2,701,788	0	38,423	0	205,516	2,945,727	2,209,570	997,274
12	8,301,760	38,131,162	3,806,219	1,887,280	47,178	(784,931)	430,551	5,386,297	0	28,284,847	2,823,369	0	38,973	0	214,676	3,077,018	2,309,279	969,561
13	8,675,339	36,715,188	3,977,499	1,972,208	48,357	(820,253)	449,855	5,627,666	0	27,234,509	2,950,420	0	39,106	0	224,214	3,213,740	2,413,926	942,788
14	9,065,730	35,000,604	4,156,486	2,060,957	49,566	(857,165)	470,026	5,879,870	0	25,962,669	3,083,189	0	39,653	0	234,213	3,357,055	2,522,815	916,573
15	9,473,688	32,956,356	4,343,528	2,153,700	50,805	(895,737)	491,102	6,143,398	0	24,446,292	3,221,933	0	40,202	0	244,660	3,506,795	2,636,604	891,082
16	9,900,003	30,548,672	4,538,987	2,250,617	52,075	(936,045)	513,126	6,418,760	0	22,660,325	3,366,919	0	40,302	0	255,542	3,662,763	2,755,996	866,449
17	10,345,504	27,740,838	4,743,241	2,351,895	53,377	(978,167)	536,139	6,706,485	0	20,577,536	3,518,431	0	40,845	0	266,946	3,826,222	2,880,263	842,342
18	10,811,051	24,492,962	4,956,687	2,457,730	54,711	(1,022,185)	560,185	7,007,128	0	18,168,334	3,676,760	0	41,390	0	278,861	3,997,011	3,010,117	818,900
19	11,297,549	20,761,716	5,179,738	2,568,328	56,079	(1,068,183)	585,311	7,321,273	0	15,400,579	3,842,214	0	41,450	0	291,275	4,174,939	3,146,334	796,240
20	11,805,938	16,500,056	5,412,826	2,683,902	57,481	(1,116,251)	611,566	7,649,524	0	12,239,375	4,015,114	0	41,986	0	304,283	4,361,383	3,288,141	774,072
21	12,337,205	11,656,927	5,656,404	2,804,678	58,918	(1,166,483)	639,000	7,992,517	0	8,646,849	4,195,794	0	41,499	0	317,797	4,555,090	3,437,426	752,758
22	12,892,380	6,176,934	5,910,942	2,930,889	60,391	(1,218,975)	667,667	8,350,914	0	4,581,912	4,384,605	0	42,011	0	331,996	4,758,612	3,592,302	731,790
23	13,472,537	0	6,176,934	3,062,779	61,901	(1,273,828)	697,621	8,725,407	0	0	4,581,912	0	41,985	0	346,792	4,970,689	3,754,718	711,513
24	14,078,801	0	0	3,200,604	63,449	(1,331,151)	244,804	2,177,706	0	0	0	0	41,932	0	3,145	45,077	2,132,629	375,934
25	14,712,347	0	0	3,344,631	65,035	(1,391,052)	255,725	2,274,339	0	0	0	0	41,849	0	3,139	44,988	2,229,351	365,567
26	15,374,403	0	0	3,495,139	66,661	(1,453,650)	267,135	2,375,285	0	0	0	0	41,736	0	3,130	44,866	2,330,419	355,479
27	16,066,251	0	0	3,652,420	68,328	(1,519,064)	279,056	2,480,740	0	0	0	0	41,591	0	3,119	44,710	2,436,030	345,664
28	16,789,232	0	0	3,816,779	70,036	(1,587,422)	291,511	2,590,904	0	0	0	0	42,022	0	3,152	45,174	2,545,730	336,028
29	17,544,747	0	0	3,988,534	71,787	(1,658,856)	304,524	2,705,989	0	0	0	0	41,199	0	3,090	44,289	2,661,700	326,824
30	18,334,261	0	0	4,168,018	73,582	(1,733,504)	318,120	2,826,216	0	0	0	0	41,590	0	3,119	44,709	2,781,507	317,707
Total PV of Annual Savings																	25,111,395	

Ongoing Department Calculation									No Additional Future Obligations Calculation							Savings		
Year	Contribution Calculation								Contribution Calculation								Annual Savings	Present Value of Annual Savings as of 1/1/2018
	Projected Payroll of Ongoing Fund	UAAL Balance at EOY	Payment on Unfunded	Normal Cost	Administrative Expenses	Employee Contributions	Interest	Total Contribution as of EOY	Projected Payroll of Ongoing Fund	UAAL Balance at EOY	Payment on Unfunded	Normal Cost	Administrative Expenses	Employee Contributions	Interest	Total Contribution as of EOY		
0	5,417,619	33,291,094	1,858,107	1,091,248	43,996	(536,886)	224,501	2,680,966	5,417,619	18,868,138	1,858,107	1,091,248	43,996	(536,886)	224,501	2,680,966	0	0
1	5,661,412	33,700,575	1,941,721	1,140,354	45,096	(561,046)	234,538	2,800,663	0	19,100,217	1,100,495	0	44,707	0	85,890	1,231,092	1,569,572	1,460,067
2	5,916,175	34,046,837	2,029,099	1,191,670	46,223	(586,293)	245,024	2,925,723	0	19,296,465	1,150,017	0	45,028	0	89,628	1,284,673	1,641,050	1,420,054
3	6,182,403	34,320,911	2,120,408	1,245,295	47,379	(612,676)	255,981	3,056,387	0	19,451,800	1,201,768	0	45,745	0	93,563	1,341,076	1,715,312	1,380,758
4	6,460,611	34,512,966	2,215,827	1,301,334	48,563	(640,247)	267,429	3,192,906	0	19,560,649	1,255,847	0	46,051	0	97,642	1,399,540	1,793,366	1,342,873
5	6,751,339	34,612,234	2,315,539	1,359,894	49,777	(669,058)	279,391	3,335,543	0	19,616,911	1,312,360	0	46,344	0	101,903	1,460,607	1,874,936	1,306,003
6	7,055,149	34,606,933	2,419,738	1,421,089	51,021	(699,165)	291,889	3,484,572	0	19,613,906	1,371,416	0	47,062	0	106,386	1,524,864	1,959,708	1,269,815
7	7,372,631	34,484,180	2,528,626	1,485,038	52,297	(730,628)	304,947	3,640,280	0	19,544,334	1,433,130	0	47,789	0	111,069	1,591,988	2,048,292	1,234,618
8	7,704,399	34,229,898	2,642,415	1,551,864	53,604	(763,506)	318,591	3,802,968	0	19,400,217	1,497,621	0	48,521	0	115,961	1,662,103	2,140,864	1,200,388
9	8,051,097	33,828,718	2,761,323	1,621,698	54,944	(797,864)	332,847	3,972,948	0	19,172,843	1,565,014	0	49,260	0	121,071	1,735,345	2,237,603	1,167,097
10	8,413,397	33,263,870	2,885,583	1,694,675	56,318	(833,768)	347,743	4,150,551	0	18,852,709	1,635,440	0	50,007	0	126,408	1,811,855	2,338,696	1,134,721
11	8,791,999	32,517,069	3,015,434	1,770,935	57,726	(871,287)	363,307	4,336,115	0	18,429,450	1,709,034	0	50,261	0	131,947	1,891,242	2,444,873	1,103,477
12	9,187,639	31,568,386	3,151,128	1,850,627	59,169	(910,495)	379,569	4,529,998	0	17,891,772	1,785,941	0	51,008	0	137,771	1,974,720	2,555,279	1,072,844
13	9,601,083	30,396,116	3,292,929	1,933,905	60,648	(951,467)	396,561	4,732,576	0	17,227,374	1,866,308	0	51,760	0	143,855	2,061,923	2,670,653	1,043,056
14	10,033,132	28,976,630	3,441,111	2,020,931	62,164	(994,283)	414,315	4,944,238	0	16,422,863	1,950,292	0	52,518	0	150,211	2,153,021	2,791,217	1,014,087
15	10,484,623	27,284,219	3,595,961	2,111,873	63,718	(1,039,026)	432,866	5,165,392	0	15,463,668	2,038,055	0	52,732	0	156,809	2,247,596	2,917,796	986,116
16	10,956,431	25,290,923	3,757,779	2,206,907	65,311	(1,085,782)	452,250	5,396,465	0	14,333,943	2,129,768	0	53,487	0	163,744	2,346,999	3,049,467	958,713
17	11,449,470	22,966,347	3,926,879	2,306,218	66,944	(1,134,643)	472,503	5,637,901	0	13,016,460	2,225,607	0	53,671	0	170,946	2,450,224	3,187,677	932,246
18	11,964,697	20,277,465	4,103,589	2,409,998	68,618	(1,185,701)	493,665	5,890,169	0	11,492,503	2,325,760	0	54,421	0	178,514	2,558,695	3,331,474	906,325
19	12,503,108	17,188,405	4,288,250	2,518,448	70,333	(1,239,058)	515,777	6,153,750	0	9,741,741	2,430,419	0	54,569	0	186,374	2,671,362	3,482,389	881,285
20	13,065,748	13,660,222	4,481,222	2,631,778	72,091	(1,294,816)	538,882	6,429,157	0	7,742,100	2,539,788	0	54,690	0	194,586	2,789,064	3,640,093	856,926
21	13,653,706	9,650,647	4,682,877	2,750,208	73,893	(1,353,082)	563,023	6,716,919	0	5,469,623	2,654,078	0	55,420	0	203,212	2,912,710	3,804,209	833,080
22	14,268,123	5,113,818	4,893,606	2,873,967	75,740	(1,413,971)	588,248	7,017,590	0	2,898,320	2,773,512	0	54,846	0	212,127	3,040,485	3,977,105	810,179
23	14,910,189	0	5,113,818	3,003,296	77,634	(1,477,600)	614,606	7,331,754	0	0	2,898,320	0	55,548	0	221,540	3,175,408	4,156,347	787,621
24	15,581,147	0	0	3,138,444	79,575	(1,544,092)	241,351	1,915,278	0	0	0	0	55,565	0	4,167	59,732	1,855,546	327,091
25	16,282,299	0	0	3,279,674	81,564	(1,613,576)	252,093	1,999,755	0	0	0	0	55,548	0	4,166	59,714	1,940,041	318,126
26	17,015,002	0	0	3,427,260	83,603	(1,686,187)	263,315	2,087,991	0	0	0	0	55,495	0	4,162	59,657	2,028,334	309,399
27	17,780,677	0	0	3,581,486	85,693	(1,762,065)	275,038	2,180,152	0	0	0	0	56,144	0	4,211	60,355	2,119,797	300,792
28	18,580,808	0	0	3,742,653	87,835	(1,841,358)	287,287	2,276,417	0	0	0	0	55,275	0	4,146	59,421	2,216,996	292,636
29	19,416,944	0	0	3,911,073	90,031	(1,924,219)	300,083	2,376,968	0	0	0	0	55,881	0	4,191	60,072	2,316,896	284,486
30	20,290,707	0	0	4,087,071	92,282	(2,010,809)	313,451	2,481,995	0	0	0	0	55,687	0	4,177	59,864	2,422,131	276,658
Total PV of Annual Savings																	27,211,537	