

**CITY OF ROCKVILLE
FINANCIAL ADVISORY BOARD
AGENDA**

DATE: January 13, 2021

Location: Video/Teleconference on ZOOM

Open to public participation via an email request
sent to BobWright0130@gmail.com

TIME: 6:45 p.m.

- I. Call to Order
- II. Approve Agenda
- III. Approve Minutes
 - Attachment: Minutes from December 9, 2020
 - Attachment: Minutes from December 29, 2020
- IV. Reports
 - Beryl L. Feinberg, Mayor and Council Liaison
 - Stacey Webster, City Staff Liaison
 - FAB Member Reports – See Action Plan
- V. FAB Orientation Document
- VI. Semi-Annual Report Review
- VII. FY 2021 Action Plan and Budget Review – Assignment of Leads
- VIII. Old Business
 - Follow-up from Last Meeting
 - Other
- IX. New Business
- X. Future Agendas and Meeting Dates
- XI. Good of the Board
- XII. Adjourn

**CITY OF ROCKVILLE
FINANCIAL ADVISORY BOARD**

DATE: December 9, 2020

LOCATION: Video/Teleconference on ZOOM

TIME: 6:45 p.m.

**Board Meeting
MINUTES**

PRESENT: Board Members: Harold Hodges, Vicky Hsu, Jack Kelly, Darryl Parrish, Bob Wright
(Board chair)
Mayor and Council Liaison: Councilmember Beryl Feinberg
Staff Liaison: Stacey Webster, Deputy Director of Finance
Staff: Rob DiSpirito, City Manager
Guests: William Spagnuolo and Kenneth MacRitchie, Prospective Board
Members

ABSENT: None

I. Call to Order

Mr. Wright called the meeting to order at 6:53 pm.

II. Approve Agenda

Mr. Wright asked the Board if there were any changes to the agenda. There were no changes to the meeting agenda.

III. Approve Minutes

Mr. Wright asked the Board if there were any changes to the minutes from October 28, 2020. There were no changes to the minutes. Mr. Kelly made a motion to approve the minutes and Mr. Parrish seconded the motion. All members voted in favor.

IV. Reports

- Mayor and Council Liaison Report – Councilmember Feinberg reported that on January 4th there will be a discussion on Town Center and BIDs and TIFs in the Town Center area. On January 11th there is the public hearing on the FY 2022 operating and capital budget and the elected body will discuss credited interest for employees in the Pension Plan. On January 25th there is a presentation on water and sewer rates and rate

structures and a discussion of 6 Taft Court and City Hall space use. Finally, affordable housing and related proposals will be discussed on February 22nd.

Next Monday, December 14th, the Mayor and Council will discuss the elected body's budget survey results and FY 2022 budget priorities.

- Staff Liaison Report – Ms. Webster reported that staff and members of the Mayor and Council will meet with the City's utility consultant again on December 17 and 18 to discuss water and sewer rates and rate structures. Mr. Wright said that he and Mr. Hodges are interested in attending. Ms. Webster will send Mr. Wright and Mr. Hodges follow-up information about the meetings.
- FAB Member Reports – Mr. Kelly discussed how he was pleased with the FY 2019 Procurement Annual Report that Ms. Lewis presented to the Mayor and Council.
- FAB Member Reports – Mr. Parrish reported that he will review the CAFR and PAFR over the next several weeks and send questions to Finance staff prior to the next Board meeting. Councilmember Feinberg commented, and thanked Ms. Webster, on the creative format of the PAFR.
- FAB Member Reports – Mr. Hsu asked if the FY 2022 budget calendar was available. Ms. Webster said that it will be discussed and approved at the December 14th Mayor and Council meeting. Ms. Webster will send the budget calendar to the Board when it is final.
- FAB Member Reports – Mr. Wright reviewed the Board members assigned to each FY 2021 Action Plan item. Mr. Wright acknowledged that there are two vacancies and said that he spoke with the Mayor about filling those vacancies. Councilmember Feinberg said that she will check with the Mayor on the proposed date of appointments.

V. Old Business

- Mr. Hodges sent a revised draft of the SEC memo to all Board members. He asked that the Board provide final comments before he finalizes the memorandum and sends it to the Mayor and Council. Mr. DiSpirito asked that the Board consider the language on lines 59-61 regarding a "study" in the context of when it would happen related to the employee engagement part. Mr. Hodges said that he will add language about what has already been done and what the Mayor and Council agreed to regarding SEC.

Mr. Wright talked about a redesign of the city's retirement options, like moving from a defined plan/hybrid plan to a full defined contribution plan. Mr. DiSpirito explained that a plan redesign is a significant undertaking and that focusing on the current plan design as it relates to SEC is an important step.

Mr. Parrish, Mr. Wright, and Mr. DiSpirito offered a few grammatical/word choice and clarification edits. Mr. Hodges incorporated the edits during the meeting.

Mr. Hodges made a motion to approve the SEC memorandum with the edits as discussed. Mr. Parrish seconded the motion. All members voted in favor. Mr. Wright will send the final memorandum with attachments to the Mayor and Council.

- Orientation Document – Mr. Wright said that Ms. Vicky Hsu and he are working on materials for the document. At this time they are missing a typical budget calendar. Mr. Wright asked members to review the orientation information and email him their comments.

VI. New Business

Mr. Wright discussed that there is a pension amendment going to the Mayor and Council regarding credited interest to non-vested employees or employees that opt for a one-time payout. Mr. Wright suggested that the Board review this issue after it is presented to the Mayor and Council on January 11th. Mr. Parrish questioned if the FAB should be involved with an issue that is under the responsibility of the Retirement Board. Councilmember Feinberg and Ms. Webster answered several questions from the Board about the Pension Plan and how reducing the credited interest could impact the Fund in the future. If requested the Board agreed to revisit this item at a future meeting. Councilmember Feinberg will ask the Mayor and Council if they want the FAB to conduct a review of the issue.

Mr. Kelly said that he sent comments on the Procurement Guide to the City Manager and he was wondering if he could have a meeting with him and Ms. Lewis. Mr. DiSpirito agreed to a meeting in January.

VII. Future Meeting Dates and Agendas

The next meeting will be held on January 13, 2021, at 6:45 p.m. via teleconference and will include the following:

- I. Call to Order
- II. Approve Agenda
- III. Approve Minutes
- IV. Reports
- V. Old Business
- VI. New Business
- VII. Future Agenda and Meeting Dates
- VIII. Good of the Board
- IX. Adjourn

The next meeting after that will be held on February 24, 2021, at 6:45 p.m.

VIII. Good of the Board

IX. Adjourn

Mr. Hodges made a motion to adjourn. Mr. Kelly seconded the motion. All members voted in favor. The meeting adjourned at 8:29 p.m.

Summary of follow-up items:

- Ms. Webster will send Mr. Wright and Mr. Hodges follow-up information about the water and sewer rate and rate structure meetings with the members of the Mayor and Council and the City's utility consultant.
- Councilmember Feinberg said that she will check with the Mayor on the proposed date of the two vacant FAB appointments (note: the Councilmember emailed the Mayor during the meeting and the Mayor confirmed the FAB appointments were not on the December 14th meeting agenda).
- Ms. Webster will send the Board the Mayor and Council's FY 2022 Budget Calendar when it is finalized.
- Mr. Wright will send the Board approved SEC memorandum with attachments to the Mayor and Council.
- Board members will review the FAB orientation document and will forward their comments to Mr. Wright.
- Mr. DiSpirito will be in touch with Mr. Kelly with dates for a meeting with Ms. Lewis to discuss the Procurement Guide.

**CITY OF ROCKVILLE
FINANCIAL ADVISORY BOARD**

DATE: December 29, 2020
LOCATION: Video/Teleconference on ZOOM
TIME: 7:00 p.m.

**Board Meeting
MINUTES**

PRESENT: Board Members: Harold Hodges, Vicky Hsu, Jack Kelly, Darryl Parrish, Bob Wright
(Board chair)
Guests: William Spagnuolo and Kenneth MacRitchie, Prospective Board
Members

ABSENT: Mayor and Council Liaison: Councilmember Beryl Feinberg
Staff Liaison: Stacey Webster, Deputy Director of Finance

I. Call to Order

Mr. Wright called the meeting to order at 7:00 pm.

II. Discussion of Pension Plan Credited Interest

This is a special meeting of the Board to discuss credited interest. The discussion focused on the interest rate used to calculate credited interest that is paid on a non-vested employee's withdrawal of contributions from the Rockville pension plan.

Board members shared their opinions on the interest rate used to calculate credited interest on the withdrawn contributions. Mr. Kelly moved to forward the enclosed memorandum to Mayor and Council regarding credited interest. Ms. Hsu seconded the motion. All Board members voted in favor of the motion.

The Board supported the recommendation that the Chair prepare the text for the Boards and Commissions Review section of the agenda for the Mayor and Council meeting that addresses this issue. Mr. Wright will circulate the text to Board members for their review before submitting it to Ms. Webster, the Board's city staff liaison and Ms. Taylor Ferrell, the City Clerk/Director of Council Operations.

III. Adjourn

Mr. Kelly made a motion to adjourn. Mr. Parrish seconded the motion. All members voted in favor. The meeting adjourned at 7:34 p.m.

Attachment: Memorandum to the Mayor and Council from the Financial Advisory Board, Credited Interest Paid on Employees Contributions to the Pension Plan, December 29, 2020

December 29, 2020

MEMORANDUM

TO: The City of Rockville Mayor and Council
FROM: Financial Advisory Board
SUBJECT: Credited Interest Paid on Employees' Contribution to The Pension Plan

PURPOSE

This memorandum responds to a request for the Financial Advisory Board (the Board) to review and comment on the interest rate paid by the Rockville pension plan on employee contributions to the plan. It provides background information on this topic and examines several optional interest rates for the Mayor and Council to consider.

BACKGROUND

When an individual leaves City employment and is not vested in the City of Rockville's retirement plan (the plan), their contributions to the plan are returned to them. In doing so they currently are paid interest on their contributions. The amount paid above their cumulative contributions is referred to as "credited interest." Credited interest is paid by the plan, not the City, and is an expense to the plan.

At the Mayor and Council meeting on December 11, 2020 Councilmember Beryl Feinberg, the Mayor and Council liaison to both the Retirement Board and the Financial Advisory Board, asked the Council if they wanted the Financial Advisory Board to comment on the interest rate used in calculating credited interest. The Mayor, verbally supporting the essence of the question, asked other Councilmembers their position regarding Councilmember Feinberg's question. As no Councilmember objected, the sense is that the Council supports doing so, but no motion was put forward.

The final authority for a change in the interest rate used in calculating credited interest in the retirement plan rests with Mayor and Council as they are the only body that can amend the plan. The Retirement Board has affirmed recently that they support the 6% interest rate currently used to continue in the calculation of credited interest. Mayor and Council are scheduled to consider the matter at their meeting on January 11, 2021.

CREDITED INTEREST ON EMPLOYEES' CONTRIBUTIONS TO THE PENSION FUND.

The credited interest is paid by the pension fund, not the City. It is an expense to the plan. What conflates the issue is that the expense of the plan is shared by the plan and the City, though not in a constant proportion or by specific category. How the expense is shared between the plan and the City varies as the analytics are complex. It could be argued that a reduction in the plan's overall expense also reduces the part of the expense paid by the City.

It would be reasonable (and fair) that an employee's contributions to the plan earn interest. The lowest rate of interest paid could be the rate on a 10-year U.S. Treasury Note—a little less than 1% as of December 2020.

According to the U.S. Inflation Calculator the average inflation rates for 2015, 2016, 2017, 2018 and 2019 were 0.7%, 2.1 %, 2.1%, 1.9% and 2.3%, respectively. These recent inflation rates suggest an interest rate of 2% provides credited interest that keeps the person whole but provides no real return.

Another option could be to pay the return of the stable value fund in the plan—approximately 3%. Information shared with the City of Rockville Retirement Board reveals that a reduction in the interest rate currently paid, from 6% to 3%, would reduce the expense to the plan, on a present value basis, by \$42,000 per annum. If the interest rate were 0%, i.e., eliminated, then the credited interest is \$0, and the savings would be \$84,000 per annum.

Given current market interest rates, which are at historical lows and recent low rates of inflation, retaining the 6% interest rate preferred by the Retirement Board seems overly generous. In our opinion the rate of the stable value fund, 3%, is a more appropriate interest rate that reflects better the current short-term interest rate available for a very safe federal government issued security, and also accounts for recent rates of annual inflation. The continued use of the return for the stable value fund is recommended for future credited interest.

Members of the Financial Advisory Board

Mr. Harold Hodges
Ms. Huei-Chi Hsu
Mr. Jack Kelly
Mr. Darryl L. Parrish
Dr. Robert Wright, Chair

CC: Mr. Rob DiSpirito, City Manager
Mr. Gavin Cohen, Chief Financial Officer/Director of Finance
Ms. Stacey Webster, Deputy Director of Finance and liaison to the Board