

City Council of Peachtree City
Workshop Minutes
July 19, 2016

The Mayor and Council of Peachtree City met in workshop session on Tuesday, July 19, 2016. Mayor Vanessa Fleisch opened the meeting at 6:30 p.m. Others attending: Mike King, Kim Learnard, and Phil Prebor. Terry Ernst was unable to attend.

City Manager Jon Rorie noted that both items under discussion that evening were connected to the budget, but not directly a part of the budget.

Development Impact Fees

Rorie gave an overview the City's impact fees, which was governed by state law. As the City grew, the new development should pay its share for expanding services.

The current methodology for assessing impact fees was developed in 2008 and adopted in 2009. At that time, Peachtree City's buildout was projected for the year 2027, with 40,000 residents and 1,435 dwelling units. The Capital Improvement Element of the City's Comprehensive Plan identified the associated service areas, service needs (existing deficiencies before growth), projected needs with new growth, levels of service, and eligible facilities for Impact Fee funding. Rorie noted that the City could not use impact fees for personnel, operating costs, or short-term capital items such as computers, furniture, or automobiles.

Currently, the City was collecting impact fees for the Library, Police, Fire, and Parks and Recreation. There were no identified deficiencies for the Library, Police, or Parks and Recreation. However, there was an existing deficiency identified for the Fire Department. The 2009 fee rate included \$1,554.62 for Parks and Recreation, \$166.34 for the Library, \$102.98 for Police, \$700.15 for Fire, and \$75.73 in Administrative Fees, totaling \$2,599.82 per dwelling unit. Commercial fees were assessed based on square footage.

Rorie then explained the Level of Service component, beginning with the Library. In 2008, the Library had a collection of 80,000 materials and served 12,795 dwelling units (6.25 materials per unit). The future demand for 1,435 dwelling units at buildout required an increase of 8,972 materials, bringing the target inventory at buildout to 88,972. The Peachtree City Library's current inventory exceeded that buildout needs projection, with 96,973 materials.

For Parks and Recreation, the level of service had been based on old National Recreation & Parks Association (NRPA) standards of 15 acres per 1,000 dwelling units. Peachtree City had exceeded that recommendation by over 200 acres in 2008. The standards used then projected numbers of specific types of facilities (sports fields and courts, swimming pools, fishing areas, playgrounds, etc.). Those standards are no longer published and should be based on local needs. Rorie noted that some additions had been made (Lake McIntosh addressed the additional fishing area noted; two playgrounds had been added, along with picnic shelters and concessions/restrooms). The result was that Recreation did not have the same needs moving forward as those identified in 2008, meaning no deficiencies need to be addressed by future Impact Fees.

The Fire Department had two new fire stations and one fire station expansion identified under the old plan, and Station 84 had been expanded a few years ago, leaving two stations (one at the south end of town and one on the west side). However, the facility needs from 2008 had been based on station square footage. The new methodology would be based on maintaining response times.

Finally, the Police Department had been evaluated in 2008 based on square footage. The methodology had been revised, but staff was looking at options beyond expanding the Police Station, possibly via a satellite station or combined usage between Police and Fire.

The City currently had nearly \$1.3 million in impact fees and was to the point that some of those funds needed to be spent. Going forward, the consultant (Ross+Associates) had revised the methodology report and limited the categories to Police, Fire, and Parks and Recreation. Population forecasts were updated, the fee schedule was revised, and the current fund balance would be captured for future use. The remaining component was the Development Impact Fee Advisory Committee, which had also reviewed the changes and had no concerns.

The revisions include projecting buildout in 2035, with the same population. The Library materials were eliminated, and the Parks and Recreation fees would be dedicated to path expansions in lieu of sports fields, pools, etc. The square footage needs for Police and Fire were revised.

Learnard asked how the decision to change Recreation fees to cart paths was made. Rorie said that was at the direction of Council in 2014.

Rorie concluded by saying the result was that the Impact Fees would go up slightly to \$2757.68 per residential unit. The commercial fee schedule was based on square footage and a sliding scale based on the generated demand by specific usages. Those fees could be adjusted by Council for economic development or redevelopment, if necessary, or Council could modify the numbers before adopting them.

Fleisch asked if the impact fees were charged when the City annexed developed land. Rorie said no, that they only applied to new development.

King expressed concern about the discrepancy between what RaceTrac would have paid (\$4,000) under the new fees versus the Chick-fil-A on the west side (\$31,000), saying the fees did not seem to accurately reflect the impact of the businesses. Learnard agreed. Fire Chief Joe O'Connor noted that there was an additional fee per gas pump that would increase that RaceTrac would have paid. Rorie said Council could review the fees and factor in those types of considerations before adoption or determine if they wanted to encourage certain types of redevelopment.

Rorie said the short-term objectives included developing an FY 2017 impact fee budget for the use of current funds as follows: \$10,000 for the Library to add circulation materials; \$50,000 for Parks and Recreation to add pavilions; and \$100,000 for the design and engineering of the West Village fire station. He noted that the new trend in fire stations was to design them to fit into the communities they served. For community safety, the goal was a balanced distribution of resources throughout the City to allow for the shortest EMS response time to prevent loss of life in cardiac arrest and meet the community's high expectation. For Fire service, the goal was to quickly gather a force of 15 firefighters to allow for simultaneous performance of essential duties.

Rorie then discussed potential build-out rates on the west side (estimated at least six years) and when construction might start on a fire station (two years to design and build), and how much funding and property taxes would be collected from the development to help fund that construction. He estimated that, at 30% of the west village construction (399 homes), the City would have received \$245,424 in Impact Fees and would be receiving between \$430,000 and \$535,000 in annual ad valorem taxes on those homes toward a \$2 million Fire Station.

He then showed similar projections for the Gateway Bridge construction over SR 54 West, noting it would take several years for the development to reach 70% (930 homes) for the projected \$2 million cost of the bridge. Learnard asked if the fees were going to be dedicated to these projects, and Rorie clarified these numbers were just for demonstration purposes on timing and use of the fees that would be coming in over time.

Rorie projected that staff could potentially bring the new Impact Fee schedule back to Council, pending review by the Georgia Department of Community Affairs, as soon as November. Learnard asked for a side-by-side comparison for the existing and proposed fees, both residential and commercial. Rorie said he would be forwarding that as the process moved forward in the coming months.

Employee Benefits

Rorie noted that the objectives of the workshop were to review employee benefits. The City's employees were its most valuable asset because none of the service delivery could be accomplished without them. One of the most difficult things for managers to do was to look at salaries and benefits and make comparisons for the purposes of internal equity.

The City wanted three things: employees who wanted to be there, who wanted to do well, and who wanted to do more. That was the type of employees the City was trying to attract. The City also had a fiduciary responsibility to the citizens, and had to work to balance the needs of both sides of the equation.

Rorie then reviewed the trend of personnel costs, noting that the five-year change included a 5% increase in salaries, a 22% increase in health insurance costs, an 8% decrease in the Defined Benefit pension, and a 7% increase in overall total personnel costs. Rorie also noted the change in head count, which had increased by 16 full-time and 4 part-time positions.

Human Resources and Risk Management Director Ellece Brown said that the work force in the United States was very different than in past years. Currently, there were four generations in the work force, and many of the Baby Boomers who were eligible to retire had not done so because they could not afford to.

Brown described workforce expectations, saying that fair compensation and a competitive and comprehensive benefits package were primary considerations. She quoted John Stacy Adams' Equity Theory of Motivation, saying, "Employees expect a fair and equitable return for what they contribute to their jobs."

She outlined the benefits the City provided to full-time employees, which included Life Insurance (City-provided and employee option to purchase additional), disability plans (Long-Term provided by City, Short-Term purchased by employee), dental and medical insurance (with Employees sharing the cost), vision insurance (employee purchased), Employee Assistance Program, Flexible Spending Account (medical and dependent, employee funded). The City also contributed to the mandated FICA and Workers Compensation programs, and the retirement programs. For an employee earning \$14.37 per hour who participated in all the offered programs, the employee would be contributing \$4,207.04 each year, and the City would be contributing \$17,626.

Brown then explained that the Human Resources department had held several Employee Benefits Communication Meetings the previous week, and those would continue the following week to reach every employee. The meetings allowed staff to review the total compensation package provided by the City, which included both salary and benefits. She explained that a

new employee signed a ream of documents on their first day and often did not know what all they had signed up for.

In those meetings, Brown said she had asked what benefits meant to each attendee as an employee. The responses were varied, but included comments like "safety, stability, security, motivation, and quality of life at retirement."

Brown then explained that Peachtree City provided a competitive market-based compensation package for a variety of reasons. They wanted to attract qualified candidates who had the required education, knowledge, skills and abilities in a shrinking pipeline of candidates with specific technical skills. The City also looked for a successful work history and acceptable criminal histories and drug screening results among applicants.

Secondly, the City wanted to retain talented employees and high performers. Retaining these employees was a greater return on investment for the City because it decreased recruiting and training costs. Brown said studies indicated it cost an organization between \$7,000 and \$14,000 to replace a typical employee, and the cost to replace a management-level employee was significantly higher.

Brown then reviewed the existing medical coverage provided to employees, saying the City currently had United Healthcare's Choice Plus PPO Plan, and employees paid to participate. In 2015, the City had increased the Primary Care Physician co-pay, added a specialist visit co-pay and increased the maximum out-of-pocket expense to employees. This had resulted in the City saving approximately \$100,000.

Brown noted the current contract negotiations between UHC and Piedmont, saying the City might need to change insurance if the contract could not be resolved.

Moving on to the retirement benefits offered by the City, Brown explained there was a Defined Benefit Pension Plan that had a five-year vesting and a 2% multiplier for the benefit formula. The pension provided a monthly benefit at the normal retirement age of 65, and allowed for early retirement at age 55 with a minimum of 10 years of service (reduced benefit for general employees and unreduced benefit for Public Safety employees). The City also offered a 457 Defined Contribution Plan with a 401(a) match (50% of employee contribution up to 2% of employee's salary). Employees were able to participate at the time of hiring, and were eligible for the City's match after one year of service. Currently 64% of employees participated in the 457 Plan.

Financial Service Director Paul Salvatore continued with the discussion of the retirement plans, noting that a Defined Contribution (DC) Plan was a savings plan, such as 401k, that was based upon defined contribution amounts for both employee and employer (e.g. If employee contributed 4% of earnings, employer would contribute a 2% match). Conversely, a Defined Benefit (DB) Plan provided a benefit at retirement that was defined by a set formula (e.g. Final average earnings x 2% x Years of Service divided by 12 = Monthly pension benefit). Salvatore noted that a DB normally included a vesting period to be eligible for a benefit (e.g. 5 years of service or no benefit). A Hybrid DB/DC Plan combined features of both DB and DC pension plans, which was what most government employers were moving toward.

Salvatore noted that the City's goal was to maintain an efficient plan that made the best use of tax dollars, and an effective plan that provided sufficient funds for an employee to retire at retirement age.

Salvatore said that DB plans were more prevalent in the public sector than the private sector, and explained that the Pension Protection Act of 2006 and Federal tax laws had made DB plans very difficult for the private sector to implement. However, Federal pension funding rules did not apply to public DB plans because public agencies were long-term organizations. This allowed public agencies to moderate the volatility of contributions and spread the risk over longer periods of time without the accompanying and costly reporting requirements.

Salvatore continued that DC Plans began to show up during the 1980s and 1990s. The investment returns had been relatively high at the time, making the DC model seem very attractive. However, more recent returns have been comparatively discouraging. Many public employers switched to DC plans after the economic downturn to limit liability, but many also had regrets at what was later seen as a "knee-jerk reaction" in going with a plan that had not yet withstood the test of time.

In reviewing the pros and cons of each type of plan, Salvatore said DC Plans offered employees more portable funds to take with them when they left positions. They also offered no investment risk and less liability for the employer. However, DC plans had been proven to be significantly less cost-effective than DB plans due to the high investment risk (no professional management of portfolios), fees charged for each investment choice, and a lack of pooled risk to spread risk over time. He said DC plans did not promote employee retention and provided no assurance of retirement income. He added that voluntary participation was also not generally effective.

Conversely, DB Plans had proven to be significantly more cost effective while promoting recruitment and retention of employees via the vesting period. The City saved money when employees left before fully vesting, and there was the potential for reduced City contributions when the market conditions were good. The negative aspects of a DB Plan were that all the investment risk was on the employer, with the potential for higher payments under poor market positions.

A Hybrid Plan offered the three-legged stool that most retirement experts considered to be the ideal design for retirement income: Social Security, DB Plan, and a supplemental DC Savings Plan. This was the hybrid approach used by Peachtree City. The primary issue was the current lack of shared risk among the employer and employees.

Rorie reiterated the City's goals of providing an effective benefit plan that attracted qualified candidates when the City was recruiting, retained talented employees and high performers, and enabled employees to retire at retirement age.

He countered the Adams Equity Norm Concept (employees expect a fair and equitable return for what they contribute to their jobs) by saying that staff understood that citizens also expected a fair and equitable return for what they contributed to their community. Citizens wanted high quality services. The question became how to maintain the same or better benefits that balanced the interests of employees with the interests of the citizens and taxpayers. Rorie said he had done a lot of calculations and had received a great deal of information from the City's actuary.

Rorie then reviewed results of surveys conducted of seven local governments (Fayette County, Fayetteville, Newnan, Coweta County, LaGrange, and Griffin, all of which were in direct competition with Peachtree City for employees) and a Georgia Government Finance Officers Association (GGFOA) 2014 Benefits Survey by EPIC Insurance Brokers & Consultants (formerly known as The McCart Group) of approximately 5,000 public and private organizations across the United States.

Rorie said that, GGFOA Survey showed 28% offered only a DB Plan, 14% offered only a DC Plan, 44% offered both DB and DC Plans, and 14% offered no retirement benefit. Of the participants who offered a DB Plan, the average vesting period was seven years (the City was five), with the average normal retirement age being 63 years (the City was 65). The multiplier in the benefit formula ranged from 1.5% to 3% and the average age for early retirement was 56. Forty-four percent of these companies required employees to contribute to the pension plan.

In the Local Government Survey, all except one (Coweta County) offered a DB Plan, and two mandated employee contributions to the DB Plan (Fayette County at 2.5% of salary and Fayetteville at 2% of salary if hired after April 2012). All also offered a DC Plan, with all but Newnan providing an employer match that varied from 2% to 5% for the maximum match.

Based on all of this information and the goals of having an effective plan to recruit and retain employees, Rorie said he was recommending several improvements to Peachtree City's DB Plan, effective January 1, 2017:

- Lower Normal Retirement Age to age 62 for non-public safety employees
- Include medical insurance benefit for employee only – identical to public safety employees
- Include option to use banked sick time for pension service (instead of cash payout)
 - Cost of this recommendation = \$92,387

With the above improvements to the plan, the City would offset the costs by:

- Require 2.25% mandatory contribution by employees to defined benefit plan
 - 2.25% mandatory employee contribution would reduce City liability by \$278,392
 - Net cost reduction to City = ~\$186,005 plus any savings generated from attrition

Rorie said he wanted to make sure the City did not go too far in setting the employee contribution so employees could continue contributing to the DC Savings Plan as well. He noted that the 34% who did not participate in the 457 plan were not the lowest paid employees. Of those who participated, the average employee contributed 2% or more, with some contributing as much as 10%.

He felt these steps, while they might not be popular, would ensure the goals were being met while balancing the equity element between employees and taxpayers. It was an improvement to the plan, but the additional cost would be paid by the employees who would receive it.

Learnard asked when the contribution started. Rorie said it would begin the first of the year for all full-time eligible employees.

Prebor asked if employees preferred the DC or the DB Plan. Rorie said it depended on the employee. He personally preferred a DC, but he was already vested in a DB plan in North Carolina. Brown noted that the primary reason she came to the City six years before was due to the DB plan.

Learnard asked if any of the other local communities had a normal retirement age of 62. Brown said Fayetteville had 62 with five years of service and a 2% multiplier for those hired after April 2012. Those hired before then were not contributing in Fayetteville.

Prebor asked what percentage of the employees were contributing 4% to the DC to get the 2% match, and could the City change the match to a 100% match with a 2% cap. That would reduce the impact on many of them. Rorie said he didn't know exactly how many were at 4% or higher, but 40% of the participants contributed between 3% and 5% of their salaries. Council

and staff discussed employee options and whether employees might start a DC contribution in addition to the DB contribution, or might move some of their DC contributions to cover the new DB requirement.

Rorie said that the effective retirement program looked at all of the components, and added that all the employee contributions (DC and DB) were pre-tax.

Prebor said he would like to see the local survey response sheets.

King said he would need to see the cost to the City of changing the matching equation and what that cost would be annually. Rorie estimated \$110,000 for every one percent. Prebor noted that many were already getting a match. King asked if there was any resistance from employees about the proposed changes. Rorie said there was some unhappiness. Brown said that, in the compensation review meetings, staff had shared some of the possible changes to the retirement plan. People understood that the City did not have unlimited funds, but the concept was difficult for some. Rorie agreed, saying there was no perfect answer, but staff had the responsibility to evaluate the benefits and ensure the plans were fair and sustainable.

Rorie said he paid 6% in North Carolina, and another employee had paid 7% in Texas, so the concept was not that big of a deal to them. However, those who had never had to contribute had a more difficult time with the concept.

Salvatore and Rorie noted that another approach might be what Fayetteville had done, which was to put the changes in place for all new employees hired after the adoption date.

Fleisch noted that private employers were tending toward only a DC Plan. Prebor asked what the cost would be to do that. Salvatore noted he had provided a handout, and that decision would be very costly to the City. Fleisch clarified that the City had to maintain the stream of contributing employees to maintain the viability of the pension.

Learnard asked Brown the purpose of the meetings with employees if they ended with a result that employees didn't like. Brown said the meetings had been planned and covered a wider range of the benefits than just the pension, but due to the discussions that evening, staff had wanted to be up front with employees about the changes that could be made.

Fleisch asked what would happen if another insurance provider could not be found at a similar cost to what the City currently paid UHC. She expressed concern about passing along insurance cost increases at the same time as the pension contribution.

Learnard said she was prepared to support proposal as presented by staff.

Rorie said if Council wanted to tweak things, the amount of the employee contribution (2% instead of 2.25%, for example) might be something to look at. However, he felt from a public policy standpoint, the employees should be sharing some of the risk that the City (and, therefore, the taxpayers) bore. He said going to a straight DC plan would be expensive and would not be as effective. The DB plan was good for the employees, and having them share in the risk made it fair for the taxpayers.

O'Connor commented that the City's benefit package was what recruited and retained staff. Salaries were fair, but the benefits package as a whole had allowed the City to retain some very talented employees. The citizens of Peachtree City had a very high expectation of the City and the employees that served them. The earlier retirement age had value, and a DB plan was one

of the few things that kept talented employees in government. Big swings away from a DB would have costs exceeding the monetary side, even if minor changes like this were needed to keep the plan viable.

Prebor reiterated his request to find out about the cost of tweaking the match on the 401A to 100%. Rorie said it could be as much as \$110,000, based on the total salaries, but he estimated it would be closer to \$55,000 based on potential employee participation. Rorie said he would provide a more detailed figure for Prebor and would love to support that because it encouraged employees to contribute to the DC Savings Plan.

Fleisch concluded the meeting at 8:54 p.m.


Betsy Tyler, City Clerk
Vanessa Fleisch, Mayor