1 CITY OF JACKSONVILLE

2 SPECIAL COMMITTEE ON CITY PENSION SUSTAINABILITY

3 MEETING

4

5

6 Proceedings held on Tuesday, May 19, 2009,

7 commencing at 3:10 p.m., City Hall, Council Chambers,

8 1st Floor, Jacksonville, Florida, before Diane M.

9 Tropia, a Notary Public in and for the State of

10 Florida at Large.

11

12 PRESENT:

13 MICHAEL CORRIGAN, Chair.
WARREN JONES, Vice Chair.
14 REGINALD BROWN, Committee Member.
KEVIN HYDE, Committee Member.
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16 SUBJECT MATTER EXPERTS:

17 HENRY COOK, Jax Retirement System Trustee.
JOHN KEANE, Police/Fire Pension Administrator.
18 ALAN MOSLEY, Chief Administrative Officer, COJ.
SHEILA SHARP-CAULKINS, Retired Employees Assoc.
19 DAVID E. KILCREASE, Corrections Advisory Comm.

20
ALSO PRESENT:
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KIRK SHERMAN, Council Auditor.
22 THOMAS CARTER, Council Auditor.
DERREL CHATMON, Office of General Counsel.
23 JEFF CLEMENTS, Chief of Research.
JESSICA STEPHENS, Legislative Assistant.
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1 P R O C E E D I N G S
2 May 19, 2009 3:10 p.m.
3 - - -
4 THE CHAIRMAN: Good afternoon, everyone.
5 We're going to go ahead and get started.
6 I'll call to order the Tuesday, May 19th
7 meeting of the Special Committee on City Pension
8 Sustainability.
9 Let the record reflect that Councilmembers
10 Reggie Brown, Kevin Hyde, and Michael Corrigan
11 are present, as well as a number of our subject
12 matter experts. Actually, all of them are here
13 today. I've got Henry Cook, John Keane, Sheila
14 Sharp-Caulkins, Alan Mosley, David Kilcrease.
15 Also, Kirk Sherman and Tommy Carter and
16 Derrel Chatmon are all present, as well as some
17 supporting staff in the back.
18 So welcome to everybody. Thank you, first
19 of all, for your patience over the last
20 month-plus as we didn't meet. I appreciate your
21 patience. I know -- especially the first one
22 was a short notice cancellation. I apologize
23 about that. I tried to talk with several of you
24 and apologize personally. We're a little more
25 organized on the next ones, so I appreciate

1 that.
2 Glad to be back in the chair. I think it
3 was probably very prudent, the time that we took
4 off, for a number of things. One was some
5 research, two was some timing on other issues
6 taking place in the process of the City, so I
7 appreciate your patience in that, but we're
8 ready to get back to work.
9 I think we're actually going to -- probably
10 going to see us speed up the process a little
11 bit. It will take us a little longer to crank
12 up today, but as we continue to work we're going
13 to try to work a little faster.
14 Fortunately or unfortunately, depending on
15 how much you're enjoying this work, we will not
16 be finished by June 1st, which was our original
17 date that we were going to be finished. The
18 council president recognized when we cancelled
19 the second meeting that we would not be finished
20 and offered -- and has since extended all work
21 through June 30th, which is the extent of his
22 power that he can do. As council president, his
23 term ends on June 30th, so he can't extend it
24 past June 30th.
25 If we find that we still need to do more

1 work, then it would be up to the new -- whomever
2 that is -- the new council president to extend
3 our work beyond that point. So we will deal
4 with that if we get there. If we don't, then we
5 won't have to deal with it.
6 So I appreciate your patience, your
7 understanding, and obviously always available to
8 answer questions, either here today or off to
9 the side with our subject matter experts on any
10 questions as far as our extension.
11 To the council members on the committee,
12 tough darts. You're on it and you're going to
13 be on as long as we do this, so -- our subject
14 matter experts, I have a little sympathy for.
15 Anyway, it's great to be back. I
16 appreciate it.
17 One of the things that happened at our
18 first meeting was a question, I believe, raised
19 by Councilmember Hyde at the time regarding the
20 settlement agreement and its effects on the work
21 that we're going to do here. We were not able
22 to have that question answered previously, but
23 Derrel Chatmon has indicated prior to today's
24 meeting that -- he's here today, so I want to go
25 back to what we originally talked about and turn

1 it over to Derrel for him to give us some
2 explanation of that question.
3 Derrel, good afternoon. Welcome.
4 MR. CHATMON: Thank you, sir, Mr. Chairman,
5 committee members, subject matter experts, and
6 viewing guests.
7 To address the issue specifically outlined
8 in the agenda is the 2000 settlement agreement,
9 and I believe the question was posed to me --
10 and I believe over the past couple of weeks,
11 actually, I have two questions that were
12 stricken. The first being what was the 2000
13 settlement agreement, the second being -- I
14 think more directly to the business of this
15 subcommittee -- is exactly are there any
16 inhibitions to the Jacksonville City Council
17 amending or adjusting or simply identifying
18 pension benefits for police and fire or any of
19 the other unions within the City of
20 Jacksonville.
21 Let me start off by saying the first issue,
22 I think, is primary because in identifying the
23 2000 ordinance and agreement, I think it's
24 important that we clarify something. It's not a
25 restatement. It's not a settlement agreement.

1 It's simply an agreement.
2 The terminology that we've utilized, I
3 think, thus far -- and I think it's been
4 perpetuated over the past couple of years, at
5 least my research has identified that it is
6 basically taking terms from a settlement
7 agreement that took place in 1992. That
8 agreement was to settle a lawsuit in 1992. That
9 settlement established itself for a certain
10 period of time and it ended in a certain -- a
11 matter of time.
12 Subsequent to it, there were amendments to
13 that agreement itself adding certain terms and
14 benefits and thereafter some changes. But in
15 2000, we had an agreement which was stated --
16 and actually it's -- I think it's named a
17 restatement -- which brought forth those terms
18 from 2000 previously.
19 There was an ordinance which was passed,
20 which was 2000-1164-E, and thereafter an
21 agreement was executed between the City of
22 Jacksonville, the Police and Fire Pension Fund,
23 and, of course, authorized by City Council. It
24 identified certain terms which govern the
25 management of the Police and Fire Pension Fund.

1 It also identified benefits which this council
2 had passed in order to have that contract
3 executed.
4 That having been said, it's not a
5 settlement agreement, and that is the position
6 of the General Counsel's Office.
7 Moving forward, however, to get to exactly
8 what it is, it identified a 30-year period,
9 which is accurate, I believe, based upon the
10 conversations that we've had thus in this
11 committee and beforehand, which I'm going to
12 actually refer to a couple of notes that I made
13 along the way, because what it did set forth are
14 certain operational terms for the Police and
15 Fire Pension Fund, including an advisory
16 committee for the fund, decreased member
17 contribution rates -- or I should say
18 "establish" -- for both the City as well as the
19 member contributions of the Police and Fire
20 Pension Funds themselves, and a couple of other
21 specific terms identifying -- excuse me --
22 specific accounts, enhanced benefit account,
23 member reserve account, the base benefit reserve
24 account, and also moving funds between the
25 accounts. In other words, it's an operational

1 device for the benefit of the Police and Fire
2 Pension Fund.
3 That having been said, again, I must
4 reiterate, looking at the agenda, it is not a
5 settlement agreement. That, I think, begins
6 what is ultimately what we want to discuss and I
7 think gets to the point of why I was originally
8 asked the question.
9 I recall Councilman Hyde bringing up the
10 issue and some discussion on the first meeting
11 and came back to that point, are there
12 inhibitions to City Council passing benefits
13 for --
14 (Cell phone interruption.)
15 MR. CHATMON: -- for specifically the
16 police and fire pension unions or any other
17 union for the City of Jacksonville. I must
18 answer that question that the only inhibition
19 for this council passing benefits --
20 (Cell phone interruption.)
21 MR. KEANE: (Inaudible.)
22 MR. CHATMON: Someone's being persistent,
23 but that's okay.
24 THE CHAIRMAN: Tell my wife I'll call her
25 back later.

1 MR. CHATMON: Your wife (indicating).
2 But anyway, getting back to the point, the
3 only inhibition which rests for the City Council
4 in passing or adjusting any pension benefits is
5 collective bargaining. I don't think that's a
6 surprise to anyone here, but to get into details
7 with it, ultimately we're saying should either
8 the chief executive officer or the bargaining
9 units themselves decide to negotiate or get
10 involved with negotiation of benefits, then that
11 would be an inhibition.
12 Those of you who were on the council or
13 around at the time of 2005/2006 remember the
14 legal opinion that my boss, Richard Mullaney,
15 passed back then indicating, again, the very
16 issue. Once negotiations take place, of course,
17 the council's role is limited.
18 Before that -- and I say historically,
19 referring to the traditions of the City of
20 Jacksonville, the chief executive officer as
21 well as all the unions have basically waived
22 their right. They did not want to negotiate
23 pension benefits.
24 The subject matter has been something which
25 was left up to the Police and Fire Pension Fund

1 as well as City Council on a historical basis.
2 I don't think there's any debate about that.
3 However, it was in 2004 and 2005 where an
4 issue arose before City Council when we started
5 dealing with the idea that benefits were being
6 brought to the table, and they were actually at
7 the table at the time that City Council was
8 being asked to pass an ordinance.
9 With that legal opinion, it was understood
10 by council in its entirety as well as the
11 parties themselves, the FOP at the time, that
12 where the parties -- the union and the chief
13 executive officer engages in negotiations, then
14 the council does not have an ability to pass
15 benefits because primarily collective bargaining
16 trumps any local ordinance or anything of that
17 nature which was taking place at the time by the
18 passing of that particular ordinance dealing
19 with benefits for corrections. That carries on
20 today and will carry on in the future.
21 So, in short -- if you can consider this to
22 be short -- collective bargaining is the
23 ultimate and the only true inhibition that you
24 have.
25 THE CHAIRMAN: Thank you, Derrel.

1 Any questions for Derrel on that?
2 COMMITTEE MEMBERS: (No response.)
3 THE CHAIRMAN: I don't see any.
4 Moving forward -- Derrel, I appreciate you
5 answering that. I mean, I think that's going
6 to -- I guess I do have one question for you.
7 Does this -- based on what you just said,
8 does this committee have the ability to make
9 changes to any pension programs or are we only
10 going to make advisory statements or findings --
11 what is our limitation on that?
12 MR. CHATMON: I'm pausing because of the
13 use of "pension programs." I think, to be
14 clear, I must get into a little bit more detail
15 of what we're talking about.
16 Again, the 2000 agreement and its
17 subsequent restatements and amendments identify
18 operations for the Police and Fire Pension Fund,
19 which you think in a program overall you might
20 include certain obligations that the City may
21 have and have bestowed to the fund which we
22 can't change, or unless there's another
23 agreement subsequent to the one that was
24 established in 2000.
25 However, to the issue of benefits

1 themselves, the clear direction is, should
2 either management or one of the labor unions
3 decide to negotiate for pension benefits, then
4 the council could not pass any benefits, or as I
5 indicated earlier, we've had a history of having
6 council pass benefits in any regard. The unions
7 can object to that, in which case anything that
8 the council would do would be problematic.
9 So that having been said, I think the
10 appropriate procedure this time is to make
11 recommendations at best, and anything more than
12 that, I think the council would be overstepping
13 its bounds.
14 THE CHAIRMAN: Okay. Perfect. Thank you.
15 Appreciate that.
16 We are ready to move on to another subject
17 that was actually started last time and we
18 attempted to finish. We didn't have very much
19 luck on that, and that had to do with the
20 five-year smoothing methodology.
21 I've asked -- Mickey Miller and John Keane
22 last time volunteered to come and try to give us
23 a little bit more clarity to that issue, and I
24 appreciate their willingness to do that.
25 And I guess we'll -- I guess, Mickey, we'll

1 begin with you.
2 John, do you want to start or -- who wants
3 to go first? Do you want to flip a coin?
4 MR. KEANE: Dick Cohee is here.
5 THE CHAIRMAN: All right. Dick, come on
6 up.
7 (Mr. Cohee approaches the podium.)
8 THE CHAIRMAN: Perfect.
9 MR. COHEE: You should have a handout --
10 THE CHAIRMAN: How are you doing?
11 MR. COHEE: I'm sorry.
12 Dick Cohee, Police and Fire Pension Fund.
13 You should have a handout dated April the
14 21st. We thought we were going to meet last
15 month, and so this was prepared at that time.
16 So that's the document before you, signed by
17 John Keane.
18 As you stated, Mr. Chairman, our homework
19 assignment was to come back and attempt to offer
20 some more information on the actual smoothing
21 methodology, the impact of it, how it might be
22 offered, perhaps in a bit of a more clear
23 illustration, and so we've attempted to address
24 those desires with this seven-page document.
25 The first two pages is simply some verbiage

1 that talks about it. After that is four pages
2 of extracts from the actuarial valuations that
3 were prepared for the general employees plan and
4 the corrections plan, at least the draft that
5 was presented to the pension trustees last
6 month. Very likely it's been revised, and I see
7 from Mr. Miller's handout today that it looks
8 like it was revised somewhat, but for
9 illustration purposes I think it's instructive.
10 And the final page is a -- is our attempt
11 to offer a simplified explanation of the
12 complicated methodology, but if I could just
13 start out by going to the bottom of the first
14 page of the memo, two tables there. The top
15 table is the smoothed approach and the bottom
16 right-hand corner of the smoothed approach --
17 which is, by the way, what we use for
18 presentations, evaluation, and for budgeting
19 purposes. The unfunded liability is reported at
20 $413 million for the two plans, the general and
21 the corrections. The blended average funded
22 status of those two, as indicated, is 80.96.
23 Again, I would note that these were
24 slightly revised in the version that evidently
25 has been massaged since the presentation to the

1 trustees last month, and so slightly different
2 numbers, particularly on the corrections side I
3 just noted a few minutes ago.
4 But that's the smoothed approach, which,
5 again, is an effort to attempt to mitigate the
6 volatility, budgetarily, of large gyrations in
7 market values from year to year. It attempts
8 to, in a more orderly way, bring budgetary
9 balances and smooth out budget requirements from
10 year to year. So that's the purpose of it.
11 The bottom table is the market value
12 approach, how we prepare our financial
13 statements, market valued stocks and bonds. And
14 had the data of the two pension plans been
15 stated on a market value basis, the unfunded
16 actuarial accrued liability would be
17 661 million, as noted in the bottom right-hand
18 corner, and the funded status would be
19 69.50 percent.
20 So you can see from the differences between
21 the two approaches, particularly in periods that
22 we've just gone through of great volatility,
23 great differences can exist between the two
24 methodologies, as indicated here, from
25 413 million to 661-. That's a $249 million

1 swing. The funded status is about an
2 11-and-a-half percent difference under the two
3 methodologies.
4 The reverse of this relationship existed in
5 the aftermath of the bull market of the 1990s.
6 The numbers would be reversed. The smoothing
7 would have produced a much different value than
8 the market value. The market value would have
9 been much higher at that time.
10 So this is the consistent approach,
11 generally accepted throughout the industry, the
12 pension industry, and commonly applied in many
13 pension plans. And, again, the underscored
14 reason is for smoothing of the budgetary
15 requirements of the sponsored government.
16 If I could ask you to switch to the next
17 page of the verbiage. This makes reference to
18 some of the pages that follow. I won't spend a
19 whole lot of time on this, but to say that we
20 have offered up as more illustrations exhibit --
21 Appendix C-3 and C-4 from the two actuarial
22 valuations. These are -- the next four pages
23 that follow, these are the actual pages from the
24 draft of the valuation that was presented to the
25 trustees last month.

1 You'll see in the pages a weighting factor
2 of one-fifteenth, two-fifteenths that Mr. Miller
3 referred to in some of his previous
4 presentations to you.
5 So, again, a lot of detail, actuarial
6 calculations and science and mathematics here in
7 these several pages, but there is some -- there
8 is some explanations on Appendix C-4 for the two
9 plans in the pages that follow.
10 A bit more use of English in helping to
11 explain how the approach is applied, but if I
12 could ask that you just simply skip through some
13 of that and go to the very last page, and that's
14 what is our effort to offer a simplified version
15 of the pages that follow.
16 I would note and underscore, however, that
17 in achieving this simplified method of
18 presenting the concept, we do lose a little bit
19 in precision, and the precision is what -- the
20 actuary's pages that preceded was based upon.
21 The actuary comes up with a smoothed return
22 of -- for 2008 of 1.63 percent. This simplified
23 method comes very close at 2.19 percent. So,
24 once again, we've lost a little bit of
25 precision, but we've gained, we think, some

1 educational, instructive advantages.
2 If I could call your attention to the
3 bottom chart, the bottom left-hand side. This
4 is a four-year return -- investment returns over
5 the five-year smoothing method. The bars
6 indicate the level of return that was presented
7 on a market value basis over the most recent
8 five years, and this is over the period from
9 2004, '5, '6, '7, and '8.
10 (Mr. Jones enters the proceedings.)
11 MR. COHEE: So in the middle of the column
12 you see 11.37 percent. That's what the actual
13 market value return was for the fiscal year
14 2004, and that is the year -- most distant year,
15 that's weighted the least, so we only
16 acknowledge one-fifteenth of that particular
17 term experience.
18 So by applying 11.37 to the one-fifteenth,
19 you come up with 75 basis points. That is the
20 amount that we acknowledge and have carried
21 forward into fiscal year 2008 and that's the
22 smoothed piece, the one-fifteenth that we have
23 acknowledged in the current reporting period.
24 If you look over to the little bar on the
25 left-hand side for that particular first year of

1 the illustration, you see a big box going out to
2 11.37 on the chart. In the shaded area, off to
3 the far left, is the one-fifteenth value of the
4 11.37 percent return, or, in other words, the
5 75 basis points.
6 So as you go down, you see four very good
7 years, ranging from 8 to 14 percent over the
8 first four years of this five-year smoothing
9 period. And, as you can see, the shaded-in
10 areas represent the growing portion of each of
11 those applicable previous good return years that
12 are acknowledged and carried forward into the
13 current reporting period.
14 The bad year, the fifth year is where you
15 see 15.65 percent, the actual market value loss,
16 and that's the bad year that we have to take
17 into account. And, as you can see, the shaded
18 area is about one-third -- actually, it is
19 one-third of the 15 percent. So we've
20 acknowledged 5 percent of a 15 percent loss and
21 have blended that with previous years of
22 progressively lower percentage acknowledgment of
23 the previous reporting period.
24 So you stir it all together into a
25 15.65 percent negative return. If smoothed,

1 would translate, under the actuary's method,
2 into a profit of 1.63 percent so that we have
3 acknowledged a piece of each of the years and
4 we'll continue that -- that carry-forward
5 example in the future over the next -- next
6 periods.
7 So that, hopefully, is a little better
8 advantage of explaining the situation that we
9 had before.
10 THE CHAIRMAN: Good. I appreciate that,
11 Dick. That definitely helps.
12 I guess my question is, does the State
13 recognize smoothing? I mean, are they -- do
14 they approve of that practice that we're doing?
15 I mean, is it --
16 MR. COHEE: The State embraces the
17 smoothing. It's the commonly-accepted practice
18 throughout the state of Florida, yes.
19 THE CHAIRMAN: Perfect. Good. I
20 appreciate it.
21 Any questions or comments on that?
22 COMMITTEE MEMBERS: (No response.)
23 THE CHAIRMAN: Good.
24 Dick, I appreciate it.
25 It's a quiet group up here today. You can

1 tell they're just getting back to work.
2 I'm not complaining. I'm just mentioning
3 it.
4 Good. I appreciate that.
5 We'll keep on moving along. And if
6 something comes up during it, don't hesitate to
7 stop us. Be happy to talk about it.
8 Next we're going to do some talking about
9 our unfunded actuarial liability. I've asked
10 Mickey Miller to come today and give us a
11 presentation about it.
12 Before he starts, I will tell you that --
13 committee, that we're going to be faced with
14 some options. You're going to be given some
15 options and have to consider what options -- the
16 options that are out there and consider if and
17 what options that we think that, as a committee,
18 we'd like to see taken.
19 And, obviously, we may not get all the
20 questions answered today, so if we don't, the
21 experts are all available to help you outside of
22 today to continue working on this if you want.
23 (Mr. Miller approaches the podium.)
24 THE CHAIRMAN: Mickey, good afternoon.
25 MR. MILLER: Good afternoon --

1 THE CHAIRMAN: Welcome.
2 MR. MILLER: -- Mr. Chairman, committee
3 members, advisors.
4 What I'd like to do is maybe comment a
5 minute on what Dick just said, if that would be
6 all right.
7 THE CHAIRMAN: Sure.
8 MR. MILLER: He and I both have been at
9 this 20-plus years, closer to 30 years. The
10 first time I looked at smoothing was in the
11 early '80s, and the only smoothing methodologies
12 governments were considering were ones that had
13 previously been approved through ERISA, which
14 applies to the private sector.
15 There is federal guidelines regarding the
16 private sector. There is no comparable federal
17 guidelines regarding the public sector, but you
18 often find the public sector looking for
19 fiduciary duty or looking for smoothing options,
20 will look into ERISA, which doesn't really apply
21 to them, and take the best pieces out of that
22 system.
23 You have options of four-year smoothing,
24 five-year smoothing. I have not seen the
25 five-fifteenths smoothing before I came here,

1 but I think it -- having thought about it quite
2 a bit, very interesting and quite appropriate.
3 Now, again, the first 15 years that I saw
4 smoothing basically I was holding up excess
5 revenue, excess market values in most
6 circumstances -- there was a little blip in
7 '87 -- a little blip. October 19th was more
8 than a blip, but it --
9 And, obviously, they had problems in 2001,
10 2002. They had problems that we're currently
11 experiencing, but most likely you'll have
12 two-thirds of your time where you're holding
13 back in excess earnings and there will be
14 limited times where you're holding back or not
15 recognizing an excess loss.
16 In the long run, that smoothing -- we'll
17 also talk about smoothing aspects in the
18 presentation.
19 Is my presentation up?
20 THE CHAIRMAN: Yes.
21 MR. MILLER: We made a presentation for
22 you. Please feel free to ask questions. If the
23 answer to your question is on a subsequent
24 slide, if you would beg me the deference, I'd
25 like to maybe hold off and address it in that

1 forum.
2 This is about one option. I will speak
3 briefly about two other options, and just -- the
4 only three that I can see or recognize, but the
5 one that most attention has been given to is
6 something called POBs, pension obligation bonds,
7 otherwise referred to as obligation pension
8 bonds and other circumstances.
9 On page 2 -- let me see if I can do this.
10 This is just briefly telling -- I'm going to
11 tell you what I'm going to tell you and then I'm
12 going to summarize it at the end. Much like --
13 tell you what you're going to say, you say it,
14 and they tell you what you said. Typical
15 presentation materials.
16 Part of this is a bit of a reminder. Your
17 annual pension costs broken up into two
18 elements, the normal cost and the amortization
19 of the UAAL. The normal cost -- again, I said
20 it before and I think you're familiar with it,
21 but it's pretty complicated. The normal cost
22 basically is the cost of adding one more year of
23 service for all your currently active
24 employees. The amortization of the unfunded
25 actuarial accrued liability is addressing those

1 bills you haven't yet paid related to benefits
2 that have been granted.
3 When we come back, I'm going to -- there
4 are -- what creates UAL you might ask, normal
5 concept. If you'll look at some of these
6 smoothings, we'll talk about how these smooth
7 forward, so you'll see that the five-year
8 smoothing is kept in line with the smoothings we
9 do on other things because unlike the private
10 sector in the mid '80s when they were basically
11 concerned about somebody going out of business
12 or somebody buying another business, to strip it
13 down and strip excess money out of the pension
14 plan -- governments don't largely go out of
15 business.
16 When we did the consolidation in '68, all
17 the pension plans that addressed this government
18 existed before that time continued to exist, and
19 we -- we attempted to invite people to join the
20 new general employee plan. And the police and
21 fire plan date back to the '30s, so they just
22 lived through that transition fairly
23 effectively.
24 But some of the employees that were part of
25 the county elected to stay in the county system

1 and they eventually retired from the county
2 system. But in the governmental world, plans
3 don't go out of business, and the -- so you have
4 more of a systematic -- reasonable, systematic
5 way of funding a pension plan as opposed to the
6 more abrupt manner you might find in the private
7 sector where a pension plan could potentially go
8 out of business and leaving some obligation or
9 some (inaudible) obligations in that
10 circumstance.
11 I'll just work from the slide here.
12 If you increase benefits -- example, adding
13 a COLA or adding a DROP or changing 2 percent
14 accrual to 2-and-a-half percent -- 2-and-a-half
15 percent to 3 percent, the increased benefits.
16 Now, what you're going to see basically,
17 when it's presented to you in normal
18 circumstances, is the cost of the first year.
19 You're going to see a percentage of pay, a
20 dollar amount for year one. That's part of a
21 30-year forward amortization. The state law
22 allows you to amortize that cost over a 30-year
23 forward period using a level percentage of pay.
24 Now, we'll come back to that discussion,
25 but it's -- there really is a level debt service

1 type payment and a level percentage of pay. The
2 most common factor is a level percentage of
3 pay.
4 Remember the discussion we had regarding
5 corrections here a few months ago. There was a
6 discussion using that example, where the initial
7 year had about 4 percent and about $3.2 million
8 in incremental costs. But if you look at it
9 over a 30-year forward period, the total cost
10 over 30 years was something like $160 million.
11 Now, historically, that 30-year cost has
12 not been on the table, not been part of the
13 picture before the council, and the council is
14 considering it.
15 You'll find I advocate -- and I think the
16 council auditor concurs -- that we should, by
17 ordinance, make that a stipulation. If you
18 bring a benefit before the City Council, you
19 show what the benefit cost would be in year one,
20 percentage of dollars, as well as an estimate of
21 what that would be over a 30-year period. Frame
22 the picture completely at the time that decision
23 is made so an informed decision can be made at
24 that time.
25 Other things that cause UAAL: Change of

1 assumption. Now, we talk a lot about interest
2 rates. We talk about retirement patterns. We
3 talk about termination patterns. We talk about
4 mortality. At some point in time -- as we are
5 probably all familiar, in the last 30 years we
6 have lengthened mortality in this country
7 dramatically, so periodically an actuarial will
8 change a new table which reflects a longer
9 expected life and potentially a higher cost.
10 If you change mortality, you will add costs
11 or add unfunded liability, which will be
12 smoothed over for a 30-year period based on your
13 change of that assumption.
14 So you can do -- you can change benefits,
15 you can change assumptions, but the third
16 category of why these things change is each --
17 between actuarial reports, whether it's every
18 year, every second year, or every third year,
19 the actuary is forecasting what he thinks will
20 happen. He comes back and finds the real
21 experience will always be different. It may be
22 higher, it may be lower.
23 All I can tell you is why -- statistically
24 it's going to mostly be different because a lot
25 of little pieces may change, positive or

1 negative, in that circumstance. So each time
2 you do an actuary report, you will be
3 potentially starting a new positive or negative
4 amortization.
5 Now, some of those differences could be a
6 positive change, it could be a negative change,
7 but it will create a new amortization for each
8 time you do an actuary report of the experienced
9 difference between what happened and what the
10 actuary anticipated or suspected might happen.
11 Now, this schedule I think you may have
12 seen before. I made one modification to it.
13 There was a flaw in this, at least in my way of
14 looking, because it wasn't a consistent basis.
15 I've changed the police and fire numbers
16 based on some (inaudible) information we've seen
17 regarding what may be the funny status -- you
18 had a 49 percent number. This represents a
19 52 percent number. There is still work going on
20 between Mr. Keane -- which he's obviously
21 capable of addressing -- and the State actuarial
22 group while resolving some difficulties
23 outstanding there.
24 Well, because one was on a market value
25 basis and the other two were on a cost -- or a

1 smoothing basis, I felt a better way to address
2 it was put them all on a consistent basis. And
3 because the way we do this is a market
4 smoothing, reflect each of them in that regard,
5 that does not change the aggregate number
6 considerably. Under the market value basis, the
7 unfunded liability was 789- versus 798-, but
8 it -- I'm just trying to make it more correct
9 the best that I could.
10 I think Dick had said something about the
11 corrections number changing. I don't know that
12 that's -- I'm not familiar with that, but I'll
13 address it and make sure we address it
14 appropriately in the process of going before the
15 pension board.
16 I want to address some of the costs of
17 UAAL. I'm on page 8. Hopefully we're all
18 there.
19 If you use a level percentage of payroll,
20 you'll have an ever increasing funding because
21 presumably you're talking about a 4, 5 percent
22 assumption of payroll growth over a 30-year
23 period. So a level percentage of payroll will
24 have this escalating yellow line. That would
25 reflect the required contributions to amortize a

1 particular cost, a group of costs.
2 Why does it get more radical? Well,
3 because if you -- over a 30-year period -- you
4 know, in some experiences all you're changing is
5 the gains and losses, you have other experiences
6 where you're changing the assumptions, and other
7 experiences where you may be adding or deleting
8 or changing benefits.
9 The interesting part, if you will look at
10 the two graphs -- the second graph, the green
11 line reflects how that liability changes. And
12 if you look to the first ten years of payment,
13 under the yellow or -- I guess that's yellow,
14 you'll find that you're making pretty dramatic
15 payments and haven't changed the unfunded
16 liability an iota.
17 Well, you just say, "Well, I'm making
18 millions of dollars in payments here and I
19 haven't changed the unfunded liability at all."
20 On a level percentage of payroll basis, in the
21 early years of a 30-year period, you'll be
22 putting in less than the money would have earned
23 had it been there. So basically you are
24 treading water, maybe holding ground, not making
25 particular progress.

1 So if you look at the payments here, your
2 first ten years your payments run from, what,
3 $50 million ten years out there into, what, the
4 $80-plus million range. You start adding those
5 numbers up, that's a whole lot of money to be
6 paid in for effectively no gain on the funding
7 status of the pension plan, but that's how it
8 works under a level percentage of payroll
9 basis.
10 THE CHAIRMAN: Mickey, let me ask you
11 this.
12 MR. MILLER: Yeah.
13 THE CHAIRMAN: Is that -- what you're
14 talking about, is that -- if we're status quo,
15 is that what you're talking about?
16 MR. MILLER: Yes, sir. That's a generic
17 way it works.
18 In the first -- typically -- I'm sorry.
19 THE CHAIRMAN: I mean, assuming the same
20 contribution rate or --
21 MR. MILLER: The level percentage of
22 payroll will produce those results because
23 basically you are contributing in the early
24 years less than the money would have earned had
25 it been there.

1 Now, you'll contribute a lot more money in
2 the out years, so it really is deferring an
3 obligation in some ways to future generations,
4 but this is the typical way a level percentage
5 of payroll would be presented. And clearly at
6 the end of the 30-year period, you get to zero.
7 But, again, there's three different sources
8 of how you -- every time you start a new
9 program, every year $5 million of actuarial
10 gain. Gains versus experience. So you start a
11 new $5 million amortization for 30 years. Add a
12 new benefit, it has a $100 million impact.
13 You'll start a new amortization over 30 years,
14 change in assumption. Same answer time and time
15 and time again.
16 But one of the things I don't think people
17 understand is that you may be paying substantial
18 amounts of money in the first ten years for
19 absolutely zero benefit. If you think -- a way
20 of benefit being reduction in liability.
21 So in the first ten years, as graphically
22 shown here, you pay a great deal of money and
23 you don't reduce your liability at all.
24 Now, some may argue that this is a method
25 that makes it easier to propose new benefits

1 because of its rear-loading effect, but
2 basically an alternative would be level of debt
3 service, which, obviously, is a very different
4 answer, but this is the way the system normally
5 works. This is the normal model. In this state
6 across this country, this is the current, normal
7 public pension plan model. It may be flawed in
8 some thinking, but it is the way the normal
9 model works.
10 Now, if I do a pension obligation bond --
11 the next page says, all right -- the graphic on
12 the next page shows that I can win as long as I
13 meet my cost of borrowing, which is like
14 5.5 percent in this hypothesis. I win a great
15 deal more if I beat my 8.5 percent assumption.
16 So I have a benefit between 5.5 and 8.5.
17 The purpose of pension obligation bonds is
18 to put the money in the account so it earns
19 money. Remember, now, contribution -- pension
20 benefits come from two things, contributions and
21 earnings versus expenses and benefits.
22 There's only two ways money gets into a
23 pension plan. It's either contributions or
24 earnings. So if you're not going to provide an
25 opportunity for earnings, then you've got a

1 larger opportunity for contributions and vice
2 versa.
3 If you potentially do a POB, you may have
4 more money there that will defer contributions
5 you might otherwise have to make.
6 Now, that hopefully will offset your debt
7 service you have to pay, but that's the model
8 we're talking about.
9 Basically, anytime above the black line or
10 the darker bottom line, you're better off.
11 You're clearly better off if you get above the
12 purple and the little blue line. But this is
13 the way a pension benefit obligation tends to
14 work and it should be considered.
15 Now, this also is typical. This is not a
16 City of Jacksonville proposal. This is still
17 basically setting the framework of typical.
18 Also typical is that you're trying to
19 (inaudible) level of savings over time, so
20 you're accepting that escalating payment
21 methodology, which I have problems with, but
22 you're trying to create some degree of a level
23 of savings.
24 The graphic on page 10 will show you that
25 level of savings, which is the space between

1 those orange bars and that yellow line. And the
2 red line shows you the improvement you get under
3 that thinking, assuming you make your earnings
4 assumption. This presumes that you actually
5 make your 8.5 percent.
6 You can take that green line and make it a
7 red line. That's the more traditional model,
8 how it works.
9 Some of the concerns that come up on a
10 national basis -- and we would have to address
11 it if we went this route -- would be what is the
12 rating agency concerned about, what should we be
13 concerned about, what are the issues that come
14 into play with regard to pension obligation
15 bonds?
16 Some people have funded the entire unfunded
17 liability, so any positive return means they're
18 overfunded. So it's a circular pattern. If you
19 fund the entire liability, if you have any
20 success at all, then it's one more time to
21 table, folks. New benefits.
22 Now, I wouldn't propose we fund -- if we
23 address anything, we need to do it in tranches.
24 I'll be happy to bring an expert here and talk
25 in more detail than I -- a nationally-recognized

1 expert, if I can get him here -- to talk about
2 this in greater detail and analyzing the last --
3 going back to 1930, in great detail about what
4 opportunities can lie in this circumstance.
5 But here's your concern: The idea that
6 it's just -- you fill up this bucket, but then
7 any bit of positive earnings above your
8 assumption, then you're back to the issue of
9 more benefits. So you maybe shouldn't go to
10 100 percent. I'll talk again about 100 percent
11 and 75 or 80, but let me get through that.
12 What happens if I borrow this money and I
13 don't earn 5.5? Well, you've still got to pay
14 the debt service and you've still got to pay the
15 contributions you need, so you want to have a
16 higher expectation of making the 5.5 and
17 hopefully the 8.5 and then some. I'll talk
18 about that in some degree.
19 What about the debt capacity? I've already
20 been to New York once and I've been to -- I went
21 to upstate Pennsylvania to talk to my
22 consultants to try to understand how this would
23 work and how -- the changes we're talking about
24 putting in this model might affect how the model
25 outcome.

1 Right now you're looking at paying
2 contributions -- last year it was about
3 38 million for unfunded liabilities. This year
4 it probably will be -- could be -- that was just
5 one plan. The number is going to jump
6 geometrically in the upcoming year based on
7 the -- largely because of the losses, some
8 actuarial assumption changes.
9 But basically we have to be sensitive to
10 what it may do to our borrowing capacity. My
11 argument is the rating agencies don't treat
12 POBs -- or don't treat pension liability as a
13 liability. So if I'm paying less than I would
14 have paid in for amortization of UAAL, they
15 shouldn't count that against my capacity because
16 I've improved my situation.
17 Now, I'm -- I'll continue to make that
18 argument. I will not sell a bond if you even
19 authorized it unless I could convince myself
20 that I've accomplished that task with regard to
21 the rating agencies and how the market would
22 accept the circumstances.
23 Alternative strategy. These are basic
24 elements. There have been a number of programs
25 done over the last 23 years with no sense at all

1 about where the market was, absolutely flawed.
2 Top of the market, we're going right now.
3 I have friends that have called their
4 friends and said, "Don't do it now; it's a bad
5 time," and they went ahead anyhow.
6 There's a new suggestion that the main
7 driver of when and how you would do this is in a
8 trough, only after the market has declined.
9 We talk about equities, trust funds. I
10 have a page of each of these. Let me just jump
11 ahead.
12 The proposal that we have worked on and
13 worked on with our -- actually, we were in
14 upstate Pennsylvania in the capital, which is
15 not easy to get to, by the way, bringing some of
16 our ideas together with our consultants,
17 which -- Public Financial Management, which is
18 the largest FA firm in the country, in trying to
19 work together to build a new model, and I think
20 we've -- I believe that some positive efforts
21 have been made to improve upon the traditional
22 model and the circumstances.
23 The first is you have to be in a trough.
24 You would never issue these bonds unless you
25 were in a trough where the market was down

1 20 percent, well still -- well down below
2 20 percent. So there's potentially still a
3 current opportunity, but it won't last forever.
4 You also -- let me go on to the next page.
5 I'm sorry. I'm losing my thought here.
6 The traditional ways to put the money in
7 the pension plan and -- is part of the asset
8 allocation. So a part of the money goes into
9 bonds, part of it goes in real estate, part of
10 it goes in equity. The question that arises is,
11 why would you borrow taxable bonds to reinvest
12 in taxable bonds?
13 The spread opportunity on that segment is
14 fairly nominal. You'd be better positioned
15 working with the pension board to invest in
16 equities at least for the first five, eight, ten
17 years because you have a much higher expectation
18 of a positive return at or above the 8.5.
19 Really the 8.5 is a blend of real estate, bonds,
20 equities, a variety of investments.
21 So the idea is that we try to focus on
22 equity in the early part of the time. Over a
23 20- or 30-year period, you may have to
24 eventually be more blended because the other --
25 the residual assets in the pension plan might

1 get depleted if you weren't working that
2 (inaudible) time.
3 I'll be happy to show you some graphics,
4 but they're not in this package.
5 The trust fund. I've come to the
6 conclusion that I would still like to have a
7 trust fund, but I would like to put it inside
8 the pension plan working closely with, in this
9 instance, police and fire or general employees
10 with the idea that only if -- if you get above a
11 certain level, some excess return --
12 extraordinarily excess returns, it might be
13 considered to pay down some of the principal,
14 only the principal, not any other general fund
15 purpose, but just the principal related to these
16 bonds.
17 I'm also -- will talk on the next page
18 about raising the bar. We have a bar at
19 90 percent. You should not potentially be
20 looking at pension benefits unless you're at
21 90 percent.
22 The State has recently gone through an
23 experience where they had a 25 percent downtick,
24 but they were still funding above 90 percent
25 because they started around 120 percent. So

1 there's a live example of when -- creating a
2 stabilization reserve, you shouldn't consider
3 yourself funded until you're in the 115, 118,
4 120. Why? Because if you're funded at that
5 level, you can experience a 25 percent downtick
6 and still not be particularly harmed.
7 So I'm going to suggest to you as part of
8 this that if we do proceed, however we proceed,
9 that we move the 90 percent threshold, that we
10 have put in an ordinance form in the past, up to
11 maybe 118, 120. Be happy to discuss the number.
12 The purpose of which is to say that we'll
13 not be considering new benefits until we're in a
14 position to absorb a major market decline
15 because they will occur from time to time. We
16 should just set the bar not at 90 percent, not
17 at 100 percent, but somewhere between 115 and
18 120 percent as a prudent measure under those
19 circumstances.
20 Now, if you remove the idea of being
21 overfunded potentially as a concern to the
22 rating agencies in the marketplace, how are you
23 addressing that?
24 If we target a 75 percent number or an
25 85 percent number, not a 100 percent number,

1 then we're -- we use the 118 as a threshold
2 number. We have to have pretty extraordinary
3 returns before we necessarily will be getting in
4 the problem of a materially overfunded status.
5 There's also the issue of potentially doing
6 it through tranches. I don't think you
7 necessarily have to do it all at one time.
8 There will be tranches from time to time. The
9 idea of only acting within a tranche, I think,
10 is prudent. The idea of maybe doing it in two
11 tranches or three tranches, I think, equally
12 would be prudent, but I think there is a value
13 in this process.
14 Now, if we do equity only, as we talked
15 about before, the projections rise above the
16 blue line. So the expectation within the first
17 five or ten years of equity only improves your
18 probability of high -- having a positive return
19 and, therefore, materially improving your
20 circumstances.
21 Again, you want them -- whatever earnings
22 you get to be more than the debt service you
23 pay, which is the black line. You want it to
24 theoretically equal or exceed the light blue
25 line. And to the extent you can do more than

1 that, you potentially may get -- if you start at
2 75 percent, you may get to that 90 percent,
3 100 percent, 118 percent somewhat quicker.
4 Also, I have redesigned this model, the
5 model in the earlier pages with the escalating
6 payments and the annual savings. This model is
7 not designed to create significant savings in
8 the short term. This is just an example. We'd
9 have to go through this in great detail to
10 figure out what the answer ought to be.
11 But using this model, about $500 million,
12 two things happen. There's a future value
13 savings somewhere around 550 million and there's
14 a present value savings of about $250 million.
15 That's a savings you don't have to put in in the
16 form of contributions and to improve the funding
17 status of your pension plan.
18 Now, why do I like it? Obviously, I like
19 it. It's more level debt service than level
20 savings over time and reduce the escalating
21 burden when otherwise applied.
22 This is meant to be somewhat of an
23 introduction to this. If there is any
24 interest -- and I hope there would be -- I'd
25 like to bring an expert in to talk about a lot

1 of analyses that's been done in the last six
2 months about the probability of success in this
3 type of a program in a subsequent meeting.
4 A summary of this particular alternative.
5 There are a limited ways you can deal with it.
6 Again, it's either contribution to earnings --
7 and if you don't create anything that creates
8 escalated, increased earnings, then you're
9 pretty well stuck with a contribution number.
10 The significant probability of excess
11 earnings. If we're working with the police and
12 fire pension board and the general employees
13 pension board, I would start with police and
14 fire because of their funded ratios and those
15 issues there, but over time I would potentially
16 propose to address some police and fire and
17 eventually some general employees and
18 corrections. We can talk about the rationale
19 for that, but I'd be happy to address it at your
20 convenience.
21 I think there's a real opportunity today
22 that didn't exist a year ago, didn't exist three
23 years ago. You may or may not know that I went
24 through about a year and a half of detailed
25 research on this shortly after I arrived here

1 because I was being asked to look at it in great
2 depth, at which point I basically said, no, I'm
3 not comfortable with this model, I'm not
4 comfortable with this -- the then present market
5 circumstances. But had we presented something
6 to you at that time, we would have been
7 regretful today.
8 I think the change of the model, only in a
9 trough, equity only, higher stabilization
10 reserve -- there's a lot of pieces here that I
11 think make for a better model, and I -- having
12 said that, I'd like to briefly talk about now
13 the other two options that will be potentially
14 available to you.
15 There's been some discussion of something
16 called a capital appreciation bond. Now, if you
17 think about that, it's largely in the form of a
18 zero, where you have no payments for a long
19 period of time. You issue debt, you have no
20 payments for 20 years, 25, 30 years. And then
21 toward the end of that period -- let's say you
22 have no payments for 22 years, you pay something
23 in the last eight years.
24 Now, if your current payment stream ends in
25 22 years, there's some argument, well, we just

1 keep on paying after we get through the current
2 payment stream. The problem with that is that
3 assumption will -- can even change, benefits may
4 continue to change, annual gains and losses will
5 clearly also change. So the idea that there's
6 some illusional cliff 20 years, 22 years,
7 25 years out there, the world is going to get
8 miraculously better, is a fiction. There's no
9 way you can say that with any particular
10 confidence.
11 Secondly, there's an argument outstanding
12 within -- between the investment banking
13 community which says you only have to book those
14 expenses when you pay them. So there will be no
15 booked expenses for the first 20-year period,
16 22 years. GASB, or the accounting standards for
17 government, says you must accrete the expense.
18 So if I've got to accrete the expense throughout
19 the period, that means I've got to budget it.
20 If I had to budget it and recognize that as an
21 expense, then I've got no gain.
22 This is all about the idea of deferring
23 payments for the first X period to be paid in a
24 later period of time. If I can't defer the
25 payments, then I don't really have an answer

1 because GASB tells me I have to accrete and
2 therefore expense and therefore budget the
3 payments I otherwise would have made. One of
4 the options.
5 A second option -- and I'm really not going
6 to dwell on this one -- would be potentially a
7 significant, separate, dedicated millage for an
8 extended period of time. And knowing how much
9 we like numbers of issues of that nature in this
10 fairly conservative community, I'm not going to
11 focus on it.
12 But I was asked once about what that might
13 look like, and it's another scary concept. It's
14 probably two, two-and-a-half to three mills for
15 10 to 12 years. That's a huge, potentially
16 highly popular answer, but it would be an
17 alternative, and those are the only three that
18 I'm aware of that would allow you to deal with
19 the UAAL.
20 Now, why do I want to deal with UAAL? We
21 can look at two-tier systems. We can look at
22 reduced benefits for new employees or reduced
23 benefits for people who haven't been here
24 20 years or haven't been here five years,
25 whatever that ends up being. That's not going

1 to change the unfunded liability an iota.
2 That's 700-, $800 million of pension obligations
3 on police and fire. It's not going to --
4 changing new benefits may help you with your
5 normal costs over time, it will, but it's not
6 going to address how you address that
7 significant number, which I've shown you here
8 and can show you again in specific numbers.
9 The City's actuary has run some numbers
10 based on information shared with us by police
11 and fire that show we have that same problem.
12 We pay an enormous amount of money in the first
13 ten years and make no progress at all on the
14 unfunded actuarial accrued liability because
15 that's how the model works.
16 Be happy to answer some of your questions.
17 THE CHAIRMAN: Councilmember Hyde.
18 MR. HYDE: Thanks, Mickey, for the broad
19 view.
20 And so -- and some of these questions were
21 just ones that came up as you were speaking,
22 so -- I'm not trying to jump around.
23 First of all, just to be clear, if we go to
24 the pension obligation bond, is that the same
25 market generally that we use for other debt

1 service?
2 MR. MILLER: It will be taxable, not tax
3 exempt. It only can be done in the taxable
4 marketplace, so we don't -- it's a very
5 different market in some ways. I won't -- I can
6 dwell on them or not.
7 The primary issue is that usually you don't
8 have call protection -- or you do have call
9 protection. You don't have a ten-year early --
10 most municipal debt can be called in ten years
11 as par and at eight years at 102. There's none
12 of that -- nothing like that in the taxable
13 marketplace. So if you have a lot of debt
14 that's out for 15, 20 years, it's usually
15 noncallable.
16 So if you look at the model I put together
17 here, it's a blend of variable rates, rolling
18 medium-term notes, and long-term fixed rates,
19 using a level principal, which I -- it's a
20 technique that I suggested that PFM seemed to
21 like. They put it in their packages, the normal
22 model exercise, so they seemed to like it a
23 little bit. They gave me some credit for it,
24 but it's a different model, trying to understand
25 the unique and the very specific differences in

1 the taxable market and the tax-exempt market.
2 MR. HYDE: And how is that market doing?
3 Is that --
4 MR. MILLER: They're both in the trash,
5 so -- if we had the authority, it may well be
6 the market will never come back to the point
7 that we'd make this work.
8 But if we are willing to look at it -- and
9 I think we should be willing to look at it --
10 there will come a time, I believe, where we can
11 get this done for maybe 250-, 400-. We can talk
12 about the level. I think the first threshold is
13 are we willing to consider it at all, and the
14 answer may be no, but that's one of the few
15 things I know that we could do that would make a
16 material impact on this government over a long
17 period of time.
18 MR. HYDE: Second question.
19 I remember years ago you and I had this
20 precise discussion on these bonds, and I think
21 you even indicated at the time you were opposed
22 to it.
23 MR. MILLER: Yes, sir.
24 MR. HYDE: Is your change of view based on
25 the fact that you said that the best time to buy

1 these is during a trough, and we are clearly in
2 a trough if not a continued decline now? Is
3 that one of the factors?
4 MR. MILLER: Working with PFM about what we
5 could do to make it better -- a lot of the good
6 ideas did not come from me, they came from
7 them. So this revised model -- I'll call it the
8 PFM model -- and, historically, they have not
9 been in favor. They've done them, but they've
10 been -- required extensive education because
11 they didn't like them either. But they've
12 changed their position. If you can do them the
13 right way, they're more inclined to consider
14 them today than they would have been five or ten
15 years ago.
16 MR. HYDE: What cities in Florida or maybe
17 elsewhere have gone to pension obligation bonds?
18 MR. MILLER: Mostly disastrously because
19 they did it at the wrong time.
20 The principal player in Florida would
21 probably be Gainesville. They've done it
22 twice. They did it once for pension bonds and
23 once for (inaudible), the older pension -- other
24 post employee benefits. So two different
25 acronyms. They've done it twice.

1 I don't believe that it's been extensively
2 done in Florida, but there have been -- quite a
3 history dating back over 23 years.
4 Again, most of it's been disastrous because
5 of the ill timing of the entry, in my belief.
6 Was why I started with the trough.
7 MR. HYDE: Have you seen a city that you
8 think has been successful, the model?
9 MR. MILLER: The closest I've seen may be
10 Gainesville. They were doing well until this
11 last few months, I think. And they've been very
12 sensitive and they've worked -- trying to do the
13 best thing.
14 But this new model, with these pieces,
15 equity only, higher stabilization level, only in
16 a trough, the trust fund aspects, I don't
17 believe it has been done. So this alternative
18 model that we -- we're presenting to you, I
19 don't believe it's been implemented. There are
20 people working on it right now around the
21 country, but I'm not sure it's been done.
22 MR. HYDE: And you mentioned the trust
23 fund. How is that trust fund funded?
24 MR. MILLER: The trust fund -- one of the
25 problems with putting money in a pension plan is

1 you can't get it out. You put it in and it
2 stays in, so the issue of a subtrust -- it only
3 has two purposes, either to improve the funding
4 status of the pension plan or in certain
5 extraordinary circumstances elective options to
6 the City Council to either continue to pay
7 extraordinary benefits or potentially pay on the
8 principal.
9 Let me give you an example. Let's assume
10 we have a -- we take the 118 as a targeted
11 stabilization level. We get from wherever we
12 started -- 75 percent, 65 percent -- we get up
13 to 100, we get up to 118, but we've now -- are
14 at a very stable position, but if we get more
15 than the -- and it's not a single target. It
16 moves over time. Should we at least have the
17 elective option to the then-mayor and council to
18 determine whether or not to restructure some of
19 the debt or to continue to pay the pension?
20 My trust fund only has two uses for money
21 in it. It either pays the pension, UAAL, or it
22 pays the -- pays off the principal of the debt.
23 It cannot be used for any other purpose, but the
24 idea is, if I get to that extraordinary level,
25 how can I create a trust fund that allows the

1 mayor and council at the time the elective
2 option to either do A or B.
3 MR. HYDE: So we would only get to that
4 trust fund once we reach the threshold -- let's
5 say we pick 115 --
6 MR. MILLER: Yes, sir.
7 MR. HYDE: -- is that correct?
8 MR. MILLER: Yes, sir.
9 MR. HYDE: So we reach that -- we're
10 currently at 90. We increase that number, we
11 get to that number, and then we would then begin
12 using monies for the trust -- we establish a
13 trust fund only at that point?
14 MR. MILLER: Yeah, only at that point, and
15 you could still have both options. You still
16 could just pay down pension obligations or use
17 it to pay off the debt. And, of course, at the
18 time the debt is finally paid off, whatever is
19 left just is in the pension fund.
20 MR. HYDE: Where does the money come from
21 for the trust fund?
22 MR. MILLER: The money comes from the trust
23 fund if the -- bond proceeds.
24 MR. HYDE: Okay. So it's in --
25 MR. MILLER: Bond proceeds and the earnings

1 of the bond proceeds, but the threshold number
2 is not so much for the subtrust. It's for the
3 pension fund. The 100 percent, 118 percent
4 numbers are related to the plan, not the trust.
5 MR. HYDE: And just one more -- a couple of
6 questions, Mr. Chairman.
7 I'm sorry to take up the time --
8 THE CHAIRMAN: That's fine. That's what
9 we're here for.
10 MR. HYDE: I just want to understand,
11 Mickey -- you had a number of options. Have you
12 settled on a recommendation that you would make
13 to us today or is it still too early for that
14 kind of decision?
15 MR. MILLER: My belief is I need to get
16 through a threshold to be willing to consider it
17 and then engage the council auditor in some more
18 detailed analysis of how to proceed.
19 We have kept Kirk involved in our
20 discussions up to this point. He traveled with
21 me on two different occasions to be keeping
22 in -- in the loop, in the engagement so he
23 understands and can speak -- obviously speak for
24 himself, but I -- there is at least a risk, in
25 my mind, but you could tell me, "That's a good

1 idea, but we're just not going to do it." So we
2 haven't expended the rest of that energy without
3 some expectation, there's a willingness to
4 consider the option.
5 MR. HYDE: So if I'm hearing you correctly,
6 then, our first decision point as a
7 recommendation that we would be making maybe to
8 the full council would be to increase that
9 number from 90 to something as a threshold
10 upon -- that we can't go below before any new
11 benefit would be provided.
12 If we make that decision, then you would be
13 in a better position to decide, well, here's
14 how -- having reached that threshold, here's
15 what can be done after that?
16 MR. MILLER: Well, let me -- if I could,
17 Councilman.
18 THE CHAIRMAN: Please.
19 MR. MILLER: Briefly, my thought here is,
20 are you willing to consider POBs? A little more
21 mundane than your issue. And we would address
22 all those pieces along the way if we get past
23 the threshold of a willingness to consider this
24 particular option because some may say it's
25 purely arbitrage and shouldn't something --

1 governments shouldn't do. And there's merit in
2 that argument, but I just don't have any real
3 answers to help -- you know, two sources of
4 money, contributions and earnings. I'm trying
5 to find a way that I can move a contribution
6 burden to an earnings opportunity and do it in a
7 way that is potentially learning from the
8 lessons of the past and doing it better.
9 MR. HYDE: So really the decision point,
10 then, is whether we would consider a POB as an
11 alternative. That being said, then we would
12 have to look at increasing the threshold level
13 to meet your other goals?
14 MR. MILLER: And I'd like to -- if you are
15 inclined to further consideration, I'd like to
16 bring in a third-party expert to walk you
17 through some of the research that's been done
18 over the last -- the experience since 1930.
19 MR. HYDE: Thank you.
20 Mr. Chairman, I think this -- the POB
21 merits further discussion. I would like to hear
22 from the expert.
23 And, Mickey, if you could also -- if
24 there's any literature maybe providing -- that
25 we could be provided on their success or lack

1 thereof, whether it be Gainesville or other
2 cities or just anything because I know we've
3 talked about it for many years. It is a
4 different move. It's an alternative strategy
5 that -- one not to enter in too lightly.
6 But as I listen to this presentation, I'm
7 not sure there's a lot of options that we can
8 take off the table at this point, and certainly
9 a POB is one that we would consider and then
10 decide whether we move forward.
11 Is that a fair enough assessment?
12 MR. MILLER: Yes, sir.
13 MR. HYDE: Thank you, Mr. Chairman.
14 THE CHAIRMAN: Councilmember Hyde, I agree
15 with you.
16 Mickey, I'd appreciate it if -- following
17 today's meeting if you could try to see --
18 coordinate and see if that could happen at our
19 next meeting. That would be ideal for me.
20 MR. MILLER: I will make a call this
21 afternoon and see if that's possible.
22 THE CHAIRMAN: Okay. I think that would be
23 helpful to all of us.
24 I guess -- I mean, I know I am --
25 "cautious", I guess, is the best word to

1 consider any of the aggressive approaches we're
2 talking about today.
3 In the simplistic model, when I look at
4 POBs, I think of someone that's able to get a
5 zero percent credit card for six months and they
6 go pay their house payment and they -- in the
7 hopes of getting another zero percent credit
8 card in six months to pay their house payment.
9 You're kind of -- what happens if you quit
10 getting zero percent credit cards? I mean, what
11 happens if we don't -- if POBs don't work,
12 what's going to happen? I mean --
13 MR. MILLER: Well, let me bring in --
14 there's a nationally-recognized figure that I
15 believe both Mr. Cohee and I recognize as a star
16 in this particular arena. I'll try to get him
17 to come in here and talk to you about the
18 research that's been done by PFM to better
19 understand the probabilities of success in
20 this --
21 THE CHAIRMAN: Yeah, and I think I need
22 that because right now I'm thinking, okay, if
23 every other city is not doing it, then, you
24 know, is it really the best thing to do?
25 And some of the other options you talked

1 about -- the CAB, to me, is -- sounds an awful
2 lot like a balloon loan for a house where it
3 sounds good now, but eventually somebody is
4 going to have to pay that massive -- largely a
5 punt.
6 MR. MILLER: Yeah, basically to a future
7 generation, which I'm -- I'm troubled by.
8 THE CHAIRMAN: Right. And I'm not sure
9 that -- I'm pretty sure I'm not going to be the
10 one that's going to suggest that three mill
11 increase for the next ten years.
12 MR. MILLER: I'm just trying to frame --
13 THE CHAIRMAN: I'm looking for a bill
14 sponsor. It's awful quiet up here, so --
15 MR. MILLER: And, again, I didn't suggest
16 any of you would, but --
17 THE CHAIRMAN: I know. I know.
18 MR. MILLER: It's the kind of numbers you
19 would potentially be talking about in that type
20 of circumstance.
21 THE CHAIRMAN: Right.
22 And I guess -- and Councilmember Joost
23 touched on this last time. He couldn't be with
24 us here today, but he attested to the fact that
25 as much -- if we are in a trough and really are

1 at the bottom of the trough, the more money we
2 put in now the better our returns are going to
3 be.
4 Every dollar we put in now is going to be
5 tremendously better than a dollar we put in
6 years previous, so -- but we all know --
7 everybody sitting on this dais knows for sure
8 there's not a whole lot of dollars to go out
9 there and find and put in now to realize that
10 gross, so that's frustrating to all of us, I'm
11 sure, so . . .
12 But I appreciate the presentation today.
13 Get back to me, if you could, as soon as you
14 find out that answer. That would be very timely
15 if they could get in here at the next meeting,
16 and we'll focus the conversation on that.
17 Councilman Jones.
18 MR. JONES: Thank you, Mr. Chairman.
19 Through the Chair to Mr. Miller, when you
20 look at the research -- I'm just wondering if
21 the Florida League of Cities -- I mean, we're
22 not the only community that's saddled with this
23 issue. What type of recommendations, if any,
24 have they come up with?
25 MR. MILLER: Well, they're -- I'm also

1 involved with something called the Sunshine
2 State (inaudible) --
3 THE CHAIRMAN: Mickey, pull that microphone
4 a little bit closer.
5 MR. MILLER: I'm also involved with
6 something called the Sunshine State (inaudible)
7 Commission, which my partner and I created in
8 1985. We were approached by some investment
9 bankers wanting us to validate a cooling
10 approach to look at this particular POB
11 strategy. So I know there are a number of
12 governments that are examining it in one fashion
13 or another.
14 I would caution that there will be a window
15 of opportunity and it won't be there forever. I
16 don't think we've lost it yet, but we need to
17 move the agenda forward.
18 One of the things we talked to our bond
19 attorneys about is the potential need to
20 validation, and I believe that we would not need
21 to go through that exercise if we worked out
22 with the pension board this interior trust
23 mechanic, which I believe is a benefit -- joint
24 benefit to both the Police and Fire Pension and
25 the City -- potentially look seriously at this

1 strategy, so I believe that type of cooperative
2 collegial effort could be forthcoming.
3 THE CHAIRMAN: I appreciate it. Thank you.
4 Councilmember Hyde.
5 MR. HYDE: Mickey, I echo the chairman's
6 response in not wanting to propose mill, but
7 it's a way for me to put the issue in
8 magnitude. You said it would take, what --
9 MR. MILLER: Two-and-a-half to three
10 mills.
11 MR. HYDE: Over the course of 10 to
12 12 years?
13 MR. MILLER: Yes, sir.
14 MR. HYDE: What kind of dollars is that --
15 are we talking about?
16 MR. MILLER: Three mills will be about
17 $160 million at the first year and go over
18 time.
19 MR. HYDE: So 360- a year over the
20 course --
21 MR. MILLER: -160.
22 MR. HYDE: -- of 10 to 12 years?
23 160- over the course of 10 to 12 years?
24 MR. MILLER: I think -- you may not need
25 the whole period, but it would take -- maybe if

1 you're lucky only seven or eight years, but it
2 would take a very long period of time.
3 MR. HYDE: Thank you.
4 THE CHAIRMAN: And, Mickey, everything we
5 talked about today assumes that everything stays
6 the same?
7 MR. MILLER: Well --
8 THE CHAIRMAN: I guess what I'm saying is
9 no increase in benefits, no decrease in
10 benefits? I mean, what we talked about today
11 is --
12 MR. MILLER: The potential of a two-tiered
13 benefit system has to do with how we manage the
14 normal cost. The normal cost is independent and
15 separate of how we potentially address the
16 UAAL. So they can work together and harness.
17 They're not independent -- they are --
18 well, they are independent, so the -- the
19 ability to do POBs is not really related to your
20 willingness to look at a two-tiered system and
21 vice versa.
22 THE CHAIRMAN: Okay. That's what I
23 thought. I just wanted to make sure.
24 Thank you. I appreciate it.
25 I don't see anything else on the queue

1 for -- John.
2 MR. KEANE: I'm not going to ask you a
3 question, Mickey.
4 THE CHAIRMAN: Push that mic button.
5 MR. KEANE: Let's try this.
6 I wanted to ask the attorney a question
7 before we get on to anything else.
8 THE CHAIRMAN: We can do that.
9 MR. KEANE: It's a simple question.
10 THE CHAIRMAN: You know, you could not have
11 timed your simple question any better because
12 I'm staring down on the agenda and I see item
13 number 5, questions and answers.
14 MR. KEANE: There we are.
15 THE CHAIRMAN: I'm pretty sure you're going
16 to get a question. I'm not convinced you're
17 going to get an answer.
18 MR. KEANE: This question is so easy, it's
19 yes or no.
20 THE CHAIRMAN: Well, see, you may be
21 lucky. It may be your lucky day.
22 Hey, John. I think you forget. He's an
23 attorney. He's paid by the minute and the word,
24 so it's not going to be yes or no.
25 MR. KEANE: I want you to tell us, if you

1 would or could, the document that was adopted by
2 the City Council in 2000 and readopted and later
3 signed by Mayor Peyton, is that document -- or
4 whatever you want to call it -- valid and
5 enforced now or not valid?
6 MR. CHATMON: I get paid by the word.
7 We'll probably be here for a while.
8 But to make it as succinctly as possible,
9 the idea that there are terms within the 30-year
10 agreement, which came in place in 2000, and the
11 subsequent amendments and restatements, which
12 are valid for the entire (inaudible)
13 identified -- again, that's the documents that
14 this council passed in various years. However,
15 there are terms within those documents which are
16 void, and that's where the collective bargaining
17 comes into place.
18 MR. KEANE: Okay. I'd like to ask a
19 follow-up question.
20 THE CHAIRMAN: Sure.
21 MR. KEANE: Now we'd like to get a summary
22 from the General Counsel's Office of all the
23 items contained in that that they think are
24 void.
25 He said some were void. We'd like to know

1 which ones they are. And I don't expect you to
2 answer them right now, but I hope that we can
3 get it at the next meeting.
4 MR. CHATMON: Well, let me address that
5 point because I think it's -- it's a fair
6 statement, but there's an understanding I need
7 to make sure everyone is clear on.
8 When I say "void," I guess the better way
9 of saying it is a possibility of being void. If
10 you recall, as I introduced the subject matter,
11 it dealt with collective bargaining and whether
12 either the chief executive officer or the units
13 themselves would engage in negotiations about
14 pension benefits.
15 That hasn't taken place yet. So to the
16 extent it doesn't take place, then the terms
17 that currently we're under -- and by that I mean
18 the actual benefits specifically still exist.
19 There is nothing that has changed what we've
20 currently established. The point that we were
21 addressing here, however, is whether the City
22 Council or the parties themselves, that being
23 the pension -- excuse me -- the bargaining units
24 or the City want to engage in negotiations.
25 So when I said "void," maybe I was a

1 little -- overstatement. Let me be clear.
2 Voidable, and thus far nothing has taken place
3 to change the status quo.
4 MR. KEANE: All right. Then my last
5 follow-up question is -- and this is as easy as
6 the first one.
7 MR. CHATMON: Yes, sir.
8 MR. KEANE: The agreement is in full force
9 as we sit here today? That's a yes or a no.
10 MR. CHATMON: Actually, it's not because
11 the state of collective bargaining as it exists,
12 when you have a term that's voidable, it doesn't
13 mean it's void, it just means it's possible of
14 being changed. So it's -- to say that it's in
15 full force, I think that might be a bit of an
16 overstatement.
17 MR. KEANE: Well, I certainly don't know
18 whether it is or it isn't. How -- who knows
19 that? Who knows that, whether it's in force or
20 it's not in force?
21 MR. CHATMON: I guess the -- again, trying
22 to be simple about it, but we're dealing with
23 something that's not real simple.
24 As, sir, I know you know very well -- and
25 everyone who has taken time to study these

1 issues has seen this -- these agreements change
2 over years. I'm referring to specifically the
3 2000 agreement since then, and, as you
4 mentioned, the restatements from various mayors
5 thereafter.
6 Probably the simplest way of expressing it
7 is to say that until collective bargaining is
8 engaged and until those benefits are changed by
9 the bargaining units themselves, the ultimate
10 ability for those benefits to stay the same
11 exists. However, I will also put forth this:
12 City Council in and of itself has the ability to
13 change those when the parties aren't engaging in
14 collective bargaining.
15 MR. KEANE: When they are not?
16 MR. CHATMON: Are not.
17 MR. KEANE: Can they change it unilaterally
18 or --
19 MR. CHATMON: Well, remember, that goes
20 back to our history. If either the chief
21 executive officer or the bargaining units
22 themselves decide to negotiate, then no one can
23 change it unilaterally or to the point that I
24 mentioned to the chairman earlier in the
25 meeting. If the City Council in and of itself

1 sets benefits and one of the two parties
2 objects, as the chief executive officer did in
3 2005, as a bargaining unit may object
4 thereafter, benefits are being set unilaterally,
5 as you and I both know, that's an unfair labor
6 practice. So that's why you do have issues
7 that -- well, let's see, again, going back to
8 the point of being simple -- would make the
9 bargaining terms themselves difficult to
10 establish by council.
11 So, again, like I said, the agreements
12 themselves, to the extent that they identify
13 operational consideration for the Police and
14 Fire Pension Fund, to the extent that the chief
15 executive officer and City Council has agreed in
16 those 2000 agreements, I think 2003, 2006, if
17 I'm not mistaken, those operational terms do
18 exist and throughout whatever terms that those
19 documents identify. However, to the extent we
20 are dealing with benefits, you are limited based
21 upon 447; Article 1, Section 6; and, again,
22 ultimately collective bargaining.
23 MR. KEANE: But the City Council, absent
24 any collective bargaining going on, cannot, by
25 its own, vacate any particular term of that

1 agreement?
2 MR. CHATMON: I don't believe that's what I
3 said.
4 MR. KEANE: I'm asking you to make sure
5 that you said they cannot.
6 There's no bargaining going on. We have
7 this document, and nobody has bargained, can
8 any -- can one party to that agreement just
9 say, "We're not going to do it anymore"?
10 MR. CHATMON: As -- well, let's be clear
11 now. You're talking about the agreement. And I
12 said to the extent that operational terms exist
13 within that agreement, those terms still exist.
14 However, to identify benefits, terms and
15 conditions of collective bargaining, those terms
16 can be amended, historically, by this council
17 or, again, collective bargaining, whichever
18 situation takes place.
19 MR. KEANE: Okay. Thank you.
20 THE CHAIRMAN: Derrel, I have a question,
21 kind of related to what John just asked you.
22 MR. CHATMON: Yes, sir.
23 THE CHAIRMAN: On the 2000 ordinance that
24 was passed by the council, if we wanted -- if we
25 were approached and asked to change the number

1 of members on the oversight committee, would
2 that require all the bargaining units to agree
3 to that for us to change that or is that
4 something the council can do unilaterally?
5 MR. CHATMON: I'm sorry, sir. Repeat that
6 question one more time, please.
7 THE CHAIRMAN: There's an advisory
8 committee that's made up of three members -- you
9 know, I don't know the whole breakdown, but if
10 there was -- if we were -- if council was
11 approached to change the makeup of that body,
12 would we have to have all the collective
13 bargaining agreements [sic] in agreement to
14 change the makeup of that body?
15 MR. CHATMON: No, sir.
16 That is not a matter for the bargaining
17 units. That is an agreement between the City
18 government and the Police and Fire Pension Fund,
19 the board of the trustees I guess I should say.
20 What we're dealing with -- and when I say
21 the "bargaining units," I'm referring
22 specifically to the Local 122 as well as the
23 FOP, those issues that regard the terms and
24 conditions of employment.
25 To the extent that we're dealing with an

1 advisory unit for the Police and Fire Pension
2 Fund board of trustees, that has nothing to do
3 with the bargaining units as far as I
4 understand. And to that extent, no, sir, that
5 would not be a matter that the bargaining units
6 would be engaged in, simply a matter of
7 agreement between the City and the Police and
8 Fire Pension Fund.
9 THE CHAIRMAN: I guess I asked the question
10 to put more clarity on what John's asking to the
11 committee really, is that that amendment -- that
12 agreement is amended, it's a very complex -- and
13 there's a number of issues covered in that
14 agreement and --
15 MR. CHATMON: Yes, sir.
16 THE CHAIRMAN: -- and there's been changes
17 and will still be changes.
18 I guess the last question I have is, when
19 the mayor and the fund agrees to a change, is
20 that always ratified by council or can it be
21 changed without being ratified by council?
22 MR. CHATMON: I think it would depend upon
23 the term that's being discussed.
24 THE CHAIRMAN: Okay. Thank you.
25 Any other questions on that?

1 COMMITTEE MEMBERS: (No response.)
2 THE CHAIRMAN: Good. I appreciate it.
3 Well, I think we've made good progress here
4 today. I think we've -- I know I understand the
5 unfunded actuarial options we have a little bit
6 better.
7 Mickey, we're all hopeful that the expert
8 is available for our next meeting. I think that
9 would be very beneficial to this group, I know
10 me especially, and we'll focus on that, if
11 that's the case. If not, then the focus of our
12 work will -- may turn a little bit, and I'll
13 keep everybody --
14 I'll update the committee and the experts
15 on the availability of our speaker next time and
16 give you a direction from that if that's not,
17 but at this point, that's going to be the goal
18 of our next committee meeting, is to listen to
19 that and try to make some -- hopefully, some
20 direction from this committee to start providing
21 advice both to the council president and to the
22 mayor on what direction we think we should go in
23 funding the unfunded liability aspect of it, and
24 then begin looking at the benefit side of the
25 work that we're going to be doing, so . . .

1 Is there any other issues or questions that
2 want to be brought up before we leave today?
3 COMMITTEE MEMBERS: (No response.)
4 THE CHAIRMAN: Once again, I can't thank
5 the subject matter experts enough for taking
6 time out of their busy schedules to join us. I
7 appreciate my colleagues for being here this
8 afternoon.
9 Seeing no further business before this
10 committee, we are adjourned.
11 Thank you.
12 (The above proceedings were adjourned at
13 4:25 p.m.)
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1 C E R T I F I C A T E
2
3 STATE OF FLORIDA:
4 COUNTY OF DUVAL :
5
6 I, Diane M. Tropia, certify that I was
7 authorized to and did stenographically report the
8 foregoing proceedings and that the transcript is a
9 true and complete record of my stenographic notes.
10 Dated this 28th day of May, 2009.
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14 Diane M. Tropia
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