

**OFFICE OF THE CITY COUNCIL**

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4TH FLOOR, CITY HALL

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**CITY COUNCIL PENSION WORKSHOP MINUTES - amended**

 **April 6, 2017**

**1:00 p.m.**

**Location:** City Council Chamber, City Hall – St. James Building; 117 West Duval Street,

**In attendance:** Council Members Lori Boyer (President), Greg Anderson, Danny Becton, Aaron Bowman, Anna Lopez Brosche, Katrina Brown, Doyle Carter (arr. 1:18), John Crescimbeni, Garrett Dennis, Al Ferraro, Reginald Gaffney, Bill Gulliford, Tommy Hazouri, Jim Love, Joyce Morgan, Sam Newby, Matt Schellenberg, Scott Wilson

**Excused**: Council Member Reggie Brown

**Also**: Mayor Lenny Curry; Jason Gabriel and Peggy Sidman – Office of General Counsel; Kirk Sherman and Kyle Billy – Council Auditor’s Office; Carol Owens and Jessica Matthews – Legislative Services Division; Steve Cassada – Council Staff Services; Sam Mousa, Ali Korman Shelton, Jessica Baker and Jordan Elsbury – Mayor’s Office; Mike Weinstein and Angela Moyer – Finance Department

**Meeting Convened**: 1:02 p.m.

President Boyer convened the meeting, Council Member Morgan gave the invocation and President Boyer led the Pledge of Allegiance.

Mayor Lenny Curry gave an overview of the philosophy behind his proposal and the key features of the plan. He said that the proposal is based on four fundamental premises: public safety and quality of life for Jacksonville’s citizens is the paramount duty of the city government; the plan must pay down 100% of the unfunded accrued liability; the plan must have a dedicated funding source that does not utilize any new taxes; and the existing outdated defined benefit plans must be eliminated. The mayor said that the pension proposal represents a historic change and a new beginning that will free up much needed budget capacity to deal with long-delayed public needs. He stressed that the proposal is very detailed and well thought out, with liquidity floors and contribution floors to ensure full funding of the retirement plans each year, and all salary increases being paid for with resources generated as a result of the net present value calculations. The mayor said that the City Council faces the most important public policy decision since the city/county consolidation in 1968.

Chief Administrative Officer Sam Mousa emphasized that the plan is very carefully crafted and balanced, with each feature depending greatly on its relation with the other features. Removing or changing any one factor will impact on the potential viability of the whole plan. He said that work on pension reform began after Mayor Curry’s election with his transition team’s study and has continued through the Florida Legislature’s approval of the Curry proposal, the successful approval of the plan by the citizens in a referendum, and successful negotiation with all of the City’s collective bargaining units.

Finance Director Mike Weinstein reviewed the continuous increase in the City’s employer contributions to the three pension plans, noting that the trustees of the General Employees Pension Plan and the Corrections Officers Pension Plan voted last week to reduce the assumed return on investment of the plan from 7.5% to 7.4%, which increased the employer contribution by $2 million over what was already projected for next year. He reviewed the main features of the proposal, including: closure of the three existing defined benefit plans; the use of the half-penny BJP sales tax after its expiration for an additional 30 years to pay down the unfunded liability of the defined benefit plans; the use of a present value calculation of the future sales tax revenue stream to re-amortize the unfunded liability over 30 years (which has the effect of lowering the annual contribution in the near term); the imposition of liquidity floors and minimum contributions; and annual review of the sales tax revenue stream and periodic adjustment of the amortization process as conditions warrant. Mr. Weinstein said that the administration will explain the 22 collective bargaining agreements at a future meeting, noting that every bargaining unit within a pension fund had to agree to exactly the same terms with regard to wages and pensions for the defined benefit plans to be closed. The JEA, whose employees are part of the General Employees Pension Plan, also bargained over other working conditions.

CEO Sam Mousa presented a chart showing the history and expected trend of sales tax growth. He noted that, unlike the Better Jacksonville sales tax, the new proposal does not including bonding to generate immediate cash for the intended use and is therefore not subject to the same pressure to achieve a certain dollar amount each year to cover debt service. The City’s contribution calculations will change year by year as economic conditions, number of employees, pay rates, etc. change yearly.

Mr. Mousa said that there is $260 million in uncompleted BJP projects because of a lack of pay-as-you-go dollars and lack of further borrowing capacity, but assured the council that the projects would be completed as promised by the end of the BJP sales tax in 2030. The BJP plan also owes funds to the Tree Protection Trust Fund $1.77 million) and still has $2 million to $4 million in condemnation costs still to be paid. The administration will present an ordinance to Council to appropriate $5.77 million for those purposes.

Mr. Mousa reviewed the negotiations with the police, fire, and corrections officers unions and explained the major features of those agreements, including two “fiscal triggers” (ad valorem tax revenue growth of less than 2.5% average over 3 years; actuarial rate of return less than assumed rate of return by more than 1%) that would trigger new negotiations if tripped in the annual review process.

Mr. Weinstein reviewed the history of payroll growth in the 3 existing plans which is trending downward in recent years, increasing the annual pension cost because of fewer employees and lower payroll growth. He noted that the half-penny sales tax is available for 30 years or until the three pension plans are all 100% funded, which the administration anticipates will be in approximately 2050 or 2051. He also noted that the pension sales tax and the BJB sales tax figures are not exactly comparable because the BJB sales tax is shared with the Beaches and Baldwin and the pension sales tax is not necessarily shared; that decision remains to be made when the tax goes into effect in 2031. He said that the State Division of Retirement has agreed to allow the City to assume increased payroll growth if it can demonstrate that there are collective bargaining agreements in place to justify those assumptions. The percentage of distribution of the present value of the sales tax among the funds will be based annually on their percentage of the total remaining unfunded liability of the three plans combined.

Mr. Weinstein noted that “normal cost” of pension plans and the actual employer contribution are very different things (actual contribution is much higher) and urged the council members not to be confused by arguments that claim that the proposed employer contributions to the defined contribution plans are more costly than the normal cost contribution to the defined benefit plans. What really matters is the total contribution. He reviewed a chart showing the projected combined employer cost of both the defined benefit and defined contribution plans while the City is paying on both. Again, the big change begins to show in the late 2040s as the sales tax revenue begins to substantially pay down the UAAL, but the City saves money on employer contributions beginning immediately due to the re-amortization process that becomes effective with the adoption of the sales tax and the closure of the defined benefit plans. Mr. Weinstein said that there will be $1.4 billion in savings to the City due to the adoption of the plan beginning with $82 million in savings in the next fiscal year $208 million vs. $290 million; $12 million of the saving accrues to JEA for its employees). The annual savings will fluctuate up and down year by year as employee counts and payroll changes (including the negotiated pay raises in the bargaining agreements).

Mr. Weinstein said that the FOP and IAFF will get 20% of the Unfunded Liability and Supplemental Payment accounts created in the 2015 pension reform ordinance utilizing “chapter” funds (Chapters 175 and 185, *Florida Statutes*). The City will have the option to use the remainder to apply toward its employer contribution.

Mr. Weinstein reviewed the costs of the proposed City pay raises (not including the JEA’s negotiated raises) and employer contributions to the defined contribution plans (increasing from 8% to 12%), which amount to $37 million, $77 million, and $120 million over the three years of the union contracts. He urged the council to place the savings differential between the increased payroll costs and the pension cost savings into a reserve account. He noted that the new plan’s cost savings, combined with the gradual growth of the General Fund budget, takes the employer contribution as a percentage of the overall budget from the high 20% range down to the mid-teens, freeing up resources to be used on other needs and to be saved in reserve accounts. He cautioned against using all of the savings for recurring expenses, recommending that it be split among operating expenses, capital projects and savings. He noted that the cost of negotiated one-time bonuses is $10.7 million, of which $8.4 million is already available in several contingency accounts.

Mr. Weinstein explained the liquidity ratios, which are the ratio of the cash in the fund to the payout obligation if all contributions into the plan stopped immediately and all accrued benefits were paid out over 5 years. The agreements provide that if the liquidity ratio drops below the amount needed to pay all obligations over 5 years, additional employer contributions will be made to stabilize the ratio. The only plan that has any likelihood of getting close to the ratio is the Police and Fire plan in 10 to 15 years; the GEPP and COPP should not ever approach the ratio trigger. He also explained the minimum contribution amounts ($110 million to PFPF, $60 million to GEPP, $10 million to COPP) that the City commits to paying into the defined benefit plans even if investment returns are healthy and the employer contribution is less than those amounts.

Mr. Mousa assured the council that the proposed plan would definitely cover the City’s pension obligations, would make budgeting easier, would keep all retirement plans soundly funded and available to pay the benefits owed, and contain additional safety nets above and beyond what the state law requires. The cost savings will allow the City to meet its obligations to employees, retirees and the general public.

President Boyer announced that the Council will hold public hearings on all of the filed ordinances at the Council meeting on April 11th; a workshop will be held on April 12th beginning at 1:00 p.m. that will review all of the collective bargaining agreements as well as any remaining questions about the pension reform plan presented today. A Committee of the Whole meeting will be noticed for April 19th in the event it is needed, although it may be cancelled if all questions are answered by that time. In response to a question from Councilman Hazouri, President Boyer stated that the order of precedence would be for the council to take up the collective bargaining agreements first, then the pension reform ordinances, then the sales tax implementation ordinance.

**The workshop was in recess from 2:44 to 2:59 p.m.**

Council Member Gulliford lamented the loss of some of the features debated and agreed to in the 2015 pension reform effort but felt that the new plan appears to be the City’s best option and he is supportive of its passage. He congratulated the administration on a good presentation.

In response to a question from Council Member Crescimbeni, Mr. Weinstein explained how the sales tax revenue will be allocated among the three funds in the future depending on their ratio of the unfunded liability total. Mr. Mousa explained the two triggers and the how “rate of return” is defined. Mr. Crescimbeni will pose additional questions privately to the administration regarding definitions. Mr. Mousa responded to another question by saying the sales tax revenue can only be applied to unfunded pension liability, but the Beaches cities have approached the administration about potentially sharing in the City’s cost savings in lieu of receiving sales tax revenue.

In response to a question from Council Member Hazouri, Mr. Mousa said that the City will be hearing from the PFPF board with its opinion of their actuary’s report on the City’s proposal. He also said that the model used for the actuarial study includes numerous assumptions with regard to number of employees, payroll growth, mortality, etc.

Council Member Bowman requested additional information on the impact of the first three years of agreed upon pay raises in years beyond the third year (cumulative effect over 15-20 years from the effects of compounding).

In response to a question from Council Member Dennis about vesting in the defined contribution plan, Mr. Mousa explained the 5-year vesting period for GEPP and 3-year vesting for police and fire and corrections officers and the disability and survivor provisions in the DC plans. Mr. Mousa explained that all City (non-JEA) bargaining agreements provide for 14% raises over the first three years, with 2% of that being paid as an increased employee contribution to the DB plan.

In response to a question from Council Member Love, Mr. Weinstein said that the administration has developed low, medium and high projections for defined benefit retirees. Mr. Mousa said that retention has been a greater problem in the general employees pool than in the police, fire and correctional officers pools. In response to another question, Mr. Mousa and Mr. Weinstein said that the collective bargaining agreements provide for mandatory financial counseling for employees and the administration has spoken to the police and fire unions about the need for their members to be educated

In response to a question from Council Member Becton, Mr. Weinstein and Mr. Mousa said that “gross rate of return” is calculated prior to expenses; that point is not amendable by Council. Mr. Becton questioned why the administration negotiated away the increased City contributions to the PFPF agreed to in the 2015 pension reform package. He likes the trigger provisions but would prefer to see an ability for the Council to impose changes when financial conditions change. Mr. Mousa said that the unions opposed Council’s ability to impose changes without negotiation.

In response to a question from Council Member Brosche, Mr. Mousa stated that the calculations in the sales tax model are on a “look-back” basis, not forward projections as it relates to the 3, 3 and 2 years automatic extensions. Ms. Brosche asked for clarification on ~~return on investment and~~ the definition of “assets” for the liquidity floor calculation, and particularly whether the assets were all assets of the plan or only the cash assets of the plan. Upon receiving input from Mr. Grieve, City Treasurer, Mr. Weinstein responded the liquidity floor calculation includes only cash assets.

In response to a question from Council Member Katrina Brown, Mr. Mousa clarified that the sales tax revenue can only be used to amortize unfunded liability; the General Fund will always be responsible for the annual normal contribution and making up any shortfall in the UAAL contribution. Ms. Brown urged that the Council be informed of impending changes well in advance of the budget process each year so that competing funding priorities are well known and constituents can see what is about to happen. Mr. Mousa clarified his earlier comments about the shortfall in the BJP sales tax and how the assumed rate of return on the pension investments can be adjusted each year to determine that year’s contributions.

In response to a question from Council Member Anderson about any changes in the governance structure of the PFPF adopted in 2015, Mr. Mousa said that the current plan makes no changes whatsoever in that structure. Mr. Weinstein explained the factors that went into the determination of the liquidity threshold and how the City’s closed DB plan differs from most other defined benefit plans in actuarial terms. In response to a question about whether the charts presented earlier included the restoration of the DROP benefits for the PFPF, Mr. Weinstein said that the charts include everything in the proposal. The payroll growth charts only reflect the first three years because those are the only year for which the collective bargaining agreements guarantee pay raises.

In response to a question from Council Member Morgan about how to explain the fundamental features of the proposal to constituents, Mr. Mousa said that the fundamental points are that the sales tax rate will remain at 7% as it is today (no increase), and that it defers much of the increased cost of employer pension contributions until out-years when the sales tax revenue becomes available, thus freeing up resources in the short term for other governmental uses. If the program is not adopted, the City will need to come up with $27 million additional General Fund dollars next year to meet required pension costs.

In response to a question from Council Member Gaffney, Mr. Weinstein explained that the 30 year averaging process of pension analysis means that impacts will occur gradually with changes up and down as conditions change, not dramatic swings on a yearly basis.

In response to a question from Council Member Gulliford about differences in obligations and payments in the first 13 years before the sales tax takes effect versus after the tax becomes dedicated to the UAAL amortization, Mr. Weinstein said that the actuarial studies will be performed annually and the City’s contribution adjusted accordingly to meet the actuarial requirements.

In response to a question from Council Member Schellenberg, Mr. Weinstein said that the models include the step raises incorporated in the police and fire collective bargaining agreements. Mr. Mousa said that the 3-year calculations will be on a rolling basis throughout the first 10 year period.

In response to a question from Council Member Hazouri, Mr. Mousa confirmed that the $5,000 expenditure caps on the local option sales taxes will continue to apply to the pension sales tax. Mr. Weinstein explained how changes in actual investment rates of return will be reflected in the annual actuarial study calculations. Only a trigger of the liquidity minimum will cause the City to have to use General Fund resources to make the employer contribution. In response to another question Mr. Mousa said that the departments are instructed to prepare their FY17-18 budget proposals based on the current year’s revenues; any change will occur later in the process if the Council adopts the proposal and the pension contributions change substantially.

In response to a question from Council Member Crescimbeni, Mr. Weinstein said that the three credit rating agencies have all been briefed on the proposal and are interested in watching its progress. They have expressed concern in the past about the City’s accumulated liabilities and are anxious to see real progress toward a solution.

In response to a question from President Boyer, Mr. Weinstein said that the vast majority of the impact of payroll growth is due to pay raises, not to increased employee count. In response to a question about whether the unions and the administration might agree to reopen negotiations if the Council had a specific request for a change, General Counsel Jason Gabriel said that theoretically it’s possible, but it may require new ratification votes by the union membership. Mr. Mousa said that the unions were presented with the agreements as they were submitted to Council, so that’s the level of detail they approved. In response to an expression of concern by Ms. Boyer that the Council could affect the ad valorem growth percentage trigger by its action, Mr. Mousa reported that the agreement contains a provision that any year in which the Council approves a millage decrease is excluded from the trigger calculation. Council Member Schellenberg reported that the Florida Legislature is considering authorizing an additional $25,000 homestead exemption (up to $75,000) which the Property Appraiser has calculated would cost the City $36.6 million in property tax revenue.

**Meeting adjourned:** 4:10 p.m.

Minutes: Jeff Clements, Council Research

4.13.17 Posted 5:30 p.m.

Tapes: Council agenda meeting – LSD

 4.6.17