

**OFFICE OF THE CITY COUNCIL**

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**CITY COUNCIL PENSION WORKSHOP MINUTES**

 **April 12, 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), Aaron Bowman, Anna Lopez Brosche, Katrina Brown, Reggie Brown, Doyle Carter, John Crescimbeni, Garrett Dennis, Al Ferraro, Reginald Gaffney, Bill Gulliford, Tommy Hazouri, Jim Love, Joyce Morgan, Sam Newby, Matt Schellenberg, Scott Wilson

**Excused**: Council Members Greg Anderson, Danny Becton

**Also**: Mike Weinstein and Angela Moyer – Finance Department; Jason Gabriel, Stephen Durden and Peggy Sidman – Office of General Counsel; Cheryl Brown – Council Secretary/Director; Kirk Sherman, Kyle Billy, Kim Taylor and Phillip Peterson – Council Auditor’s Office; Carol Owens and Jessica Matthews – Legislative Services Division; Steve Cassada – Council Staff Services; Sam Mousa and Ali Korman Shelton – Mayor’s Office

**Meeting Convened**: 1:03 p.m.

President Boyer convened the meeting and the members introduced themselves for the record. Council Member Morgan gave the invocation and Ms. Boyer led the Pledge of Allegiance.

A Council Committee of the Whole is scheduled for next Wednesday, April 19th at 1:00 p.m. Ms. Boyer will poll the membership for their availability on Thursday, April 20th and Monday, April 24th for a special council meeting.

Chief Administrative Officer Sam Mousa reported that since the last pension workshop the administration has met with 18 of 19 council members to answer questions and provide further detailed information. All of the questions posed by council members at those meetings will be answered by the end of this week. Finance Director Mike Weinstein reported that events in the last week have caused the need for some adjustments in the proposed pension plan and he will be distributing replacement pages for the document distributed at the last workshop. He explained that 2 of the 3 actuaries who have studied and evaluated the plan reached the same conclusion; the actuary for the Police and Fire Pension Fund recommended a different (lower) rate of payroll growth, which had the effect of increasing the employer contribution by $2 million for FY18, reducing the City’s expected savings by that amount. The PFPF’s new actuary, in the course of reviewing the work by the PFPF’s previous long-time actuary, found that the former actuary had calculated cost of living adjustments at the end of fiscal years rather than at the beginning of the year, costing the City another $11 million of projected savings in employer contribution in the change to the preferred methodology.

Mr. Weinstein distributed and reviewed the changes in the 6 pages of the previous workshop’s handout to explain the differences caused by the two decisions of the PFPF’s actuary and board last week. Pages 22R and 23R show a change in the employer contribution from $290 million to $360 million for FY17-18 without the reform package; with the reform package the contribution would be $221 million for a savings of $139 million. The FY16-17 employer contribution is $290, meaning that adopting the reform package would produce a savings of $69 million in FY17-18 from the FY16-17 contribution. The City’s employer contribution savings from pension reform are estimated at $261 over the first 4 years (through FY20-21). JEA’s savings will be reduced to the amount of actual savings over 4 years (estimated at $38 million), not a fixed assumption of $12 million per year ($48 million total). The City will also get to utilize $60 million ($20 million per year over 3 years) due to distributions from the PFPF reserve fund. Mr. Weinstein said that the economy is showing considerable improvement in recent years and is expected to keep growing for the next several years which increases City revenues that can be used to make the required pension payments. He recommended dividing the City’s annual contribution savings (net of the increased costs due to employee raises) between reserve accounts (recommend $10 million per year for use in future years), capital expenditures and operational enhancements. Two General Fund revenue growth scenarios have been calculated – 3% and 2.5%. The 3% growth assumption would produce $98 million in savings after costs through FY20-21; the 2.5% growth assumption would produce $73 million.

Mr. Mousa emphasized that all of the facets of the pension reform plan are interdependent – changing any feature of the proposal (pay raises, amount of current savings, etc.) will impact on all the other features and change the net fiscal impact. The administration believes that they have presented a balanced, feasible, workable plan.

In response to a question from Council Member Katrina Brown, Mr. Weinstein said that the plan will cover the cost of the employee raises without any additional General Fund contribution, leaving $30+ million in savings for use in the budget next year. He said that for the plan to impact the FY17-18 budget it must be approved in the next few weeks so that the FY18 budget can be crafted using those assumptions. A substantial delay means that the FY18 budget will be developed using the current pension plans and revisions would have to be delayed to FY18-19. In response to a question from Council Member Bowman, Mr. Weinstein explained the multi-actuary consultation process and why the City decided not to invoke its right to demand a third actuary to break the stalemate over the 1.5% versus 1.25% payroll growth rate for the PFPF-member employees. Council Member Bowman felt that the charts showing $98 million in cost savings due to adopting the plan don’t reflect rising costs to the City budget over the years that would likely absorb some of those savings. Mr. Weinstein said that future budgets will go up as much or as little as the City Council wants to approve each year. Mr. Bowman requested the administration to develop a report showing a 20-year trend of City expenditures and noted that the City is running an extremely lean operation after years of expenditure cuts and there may not be many areas left to cut.

In response to a question from Council Member Crescimbeni, Mr. Weinstein said that the Property Appraiser is confident that property tax revenue growth will be very healthy next year ($40+ million based on very early preliminary estimates). Mr. Mousa said that failure to adopt the pension reform will lead to very serious budget cuts next year and that Mayor Curry is adamantly opposed to any millage increase to deal with pension cost increases. Mr. Weinstein said that the FY18 budget is being developed assuming that the pension reform is not implemented; if it is approved in the near future then the budgeting process will be changed to reflect the new financial realities. In response to a question by Council Member Hazouri, Mr. Mousa said that the assumptions baked into the plan are reasonable estimates based on currently available information and are neither conservative nor aggressive. The plan will be adjusted every year as actuarial studies are done, sales tax revenues change, etc. He said that the plan is based on actuarially sound judgements as required by law and the Florida Division of Retirement agrees, as evidenced by the letter the administration received from the division and distributed to the Council yesterday. In response to a question from Council Member Gaffney, Mr. Mousa said that the Better Jacksonville Plan sales tax and the pension amortization sales tax are very different vehicles because the BJP bonded against the revenue stream and had fixed debt service payments to make each year, even as the Great Recession substantially reduced the projected sales tax revenue. Mr. Mousa said that the bond rating agencies are constantly questioning the City about its progress toward solving its pension liability problem and the City’s ratings will not change for the better until a permanent solution is implemented.

In response to a question from Council Member Dennis about what recommendation he would make to the mayor taking office in 2031, Mr. Weinstein said he would urge that mayor to take the cash then starting to be generated by the sales tax to pay off the pension liability as quickly as possible and to never consider returning to defined benefit pension plans. In response to another question Mr. Weinstein said that the liquidity ratios are not based on dollar figures but are based on annual contribution requirements that change from year to year. In response to a question from Council Member Love, Mr. Mousa said that the City can at any time make additional contributions toward pension liability amortization if it thinks that is the best use of the funds. If employee retention becomes a problem the City could enact incentives to keep employees such as longevity bonuses. In the future, employees of a defined contribution plan could hold a referendum among the membership and choose to be covered by Social Security with an additional employee contribution. Council Member Gulliford said that while there may be criticisms of the reform proposal, the current system is unsustainable by itself and needs to be replaced. He noted that there is no way of knowing absolutely what is going to happen in 5 or 10 years with this plan; no one knows what future economic conditions be like. The problem has festered for years and this appears to be the best option to finally solve it. This plan has the advantage of the new funds being solely dedicated to the amortization of pension liability, which is something no other proposed plan has ever been able to achieve.

Council Member Reggie Brown said the City is continually backing itself into a corner by refusing to consider a millage increase to fund the City’s many operational and capital needs. He believes the City needs a long-range plan for improvements and a prioritized plan of what additional funds would be used for and what cuts would have to be made if funding levels are reduced. Assistant Council Auditor Kyle Billy said that his office had sent the administration 5 pages of questions on the pension proposal and just received a response this morning that they have not yet had a chance to review. They also need to meet with the JEA regarding its portion of the reform proposal. The Auditor’s Office has questions about the disability plan and survivor benefits in particular.

In response to a question from Council Member Morgan, Mr. Mousa said that the administration has been very conservative in its estimates and is very confident that the projections will be met, understanding that no one knows what the future holds. But as conditions change, the assumptions and calculations will change annually to adjust the contributions. Ms. Morgan felt that the nature of the conversation has changed from before the referendum to the present time. Before the referendum one of the selling points was that adopting the sales tax in the future would free up dollars in the present for expenditure on immediate community needs, now it appears that savings in the next few years resulting from pension reform will not be very substantial.

Council Member Schellenberg requested the opinion of General Counsel Jason Gabriel on a letter sent to the council yesterday from John Winkler of Concerned Taxpayers of Duval County. Mr. Gabriel said that Mr. Winkler is an active litigant against the City on this issue so he can’t speak on the record about Mr. Winkler’s points but would be happy to meet with the councilman privately. Mr. Schellenberg pointed out that any council member can introduce an ordinance at any time to raise the millage rate by one or two mills to generate revenue to address the unfunded liability problem. Council Member Ferraro said the Curry administration seems to be on the right track in proposing an acceptable solution and the Council needs to overcome problems that were decades in the making and have landed in this Council’s lap. He believes any talk of a millage increase is premature.

Council President Boyer asked for clarification about the cumulative nature of the savings bank and its importance to the success of the plan over the next 4 years. In response to a question from Council Member Gulliford, Mr. Weinstein said there is no prohibition against a defined contribution retirement plan purchasing disability, life insurance or annuity plans for participants. Mr. Gulliford noted that the City has a lifetime liability for defined benefit employees and their spouses once the employee vests. Under a defined contribution plan the City’s liability ends when the employee leaves employment and rolls their accumulated assets into another plan with their next employer. In response to a question from Council Member Hazouri, Assistant Council Auditor Kyle Billy said that his office is making every effort to have all of their questions answered before the Committee of the Whole meeting next week, but they cannot opine on the actuarial soundness of the plan since that is beyond their expertise. They will analyze the calculations and review the assumptions for reasonableness and will provide what information they can to assist the Council in its decisions.

In response to a question from Council Member Bowman, Mr. Weinstein explained the change in the payroll growth rate used by the PFPF’s former actuary that caused a $44 million increase in the PFPF’s required employer contribution (by changing from a 3.5% payroll growth assumption to a 0.067% rate). That $44 million combined with additional GEPP and COPP additional costs from the previous year will require an additional employer contribution of $70 million in FY17-18. Council Member Brosche said that her questions revolve around the actuarial reports and she has posed several questions to the administration. Mr. Mousa said that the answers to those questions will be provided by Friday. Mr. Weinstein explained to Council Member Reggie Brown that because the City is taking advantage of the net present value of the future sales tax revenue stream in the near term, there will not be a windfall of cash available for other uses when the sales tax revenue actually begins to be collected in 2031 – it will be injected directly into the pension liability as received to take the place of the net present value calculation that will funding the contribution until then. Council Member Carter urged the Council to take the first step and begin paying down the deficit.

Collective bargaining agreements

Mr. Mousa said that the JEA’s collective bargaining efforts included more issues than just wages and pension benefits, which were all that the City’s negotiations with its unions covered. The JEA included such elements as overtime, work conditions, etc. in their negotiations. The City will reopen negotiations with its unions on those other types of issues at a future date. All City general employee unions agreed to a 14% pay increase over 3 years – 5% in year 1 (with 2% returned as a contribution to the defined contribution plans), 4.5% and 4.5%, plus a 2% or 3% one-time, non-pensionable bonus in year one (depending on whether the union did or did not take a pay reduction several years ago). All new general employees as of October 1, 2017 will enter a defined contribution plan with an 8% employee contribution and a 12% employer contribution. The police, fire and corrections officers unions agreed to a 20% increase over 3 years (7% in year one, 2% of which will be returned as a pension contribution, 6.5% in year 2 and 6.5% in year 3). All new police, fire and corrections employees as of October 1, 2017 will enter a defined contribution plan with a 10% employee contribution and a 25% employer contribution. All the contracts contain re-opener provisions for issues other than wages and pensions.

Mr. Mousa said that the IAFF unions have re-openers in their contracts regarding retirement of members not currently appointed at their highest Civil Service attained rank and regarding voluntary individual employee contracts, a mechanism in place in some jurisdictions in Florida but an unfamiliar concept in Jacksonville. The administration will need to research the implications of these individual contracts before it knows how to negotiate over them.

Mr. Mousa noted that the police, fire and corrections contracts all provide for a collapse of the current Group 1 and Group 2 employees (established in 2015) back into one class of employees with uniform benefits.

Mr. Weinstein reviewed the Jacksonville Housing Authority contract provisions. Those employees, although federally funded and not City employees, are members of the General Employees Pension Plan and the pension proposal includes a charge of approximately $210,000 to convert those employees to the defined contribution plan.

General Counsel Jason Gabriel briefly described the 5 JEA collective bargaining agreements, the 6 COJ collective bargaining agreements, and the 3 ordinances amending the Ordinance Code and City Charter to implement the new retirement plan. Assistant General Counsel Sean Granat outlined the major terms of the agreements: all employees will pay an increased employee contribution of 10%; all current police officers and firefighters hired between 2015 and 2017 into Group 2 will be consolidated back into Group 1; the plan includes disability and survivor benefits for the defined contribution plan (different levels for vested and unvested employees, and different levels for job-related versus non-job-related disability – mirroring the benefits currently provided to defined benefit pension members). Mr. Gabriel reported that the bargaining agreements contain certain contingencies: relation of these agreements to any previous agreements; implications of a successful court challenge to the new retirement program; ratification of the agreements by all collective bargaining units; approval by City Council; all required conditions must be met prior to implementation. Mr. Mousa said that the agreements are all for a term of three years as required by state law. He described the “triggers” in the police, fire and corrections officers agreements of payroll growth and investment rate of return that would be reviewed every three years (years 3, 6, 9 and 10) and would trigger a reopening of negotiations if the actual performance falls below the minimum thresholds.

Council Member Reggie Brown asked for a report on the number and job category of all employees making less than $13 per hour. Mr. Weinstein clarified that the JHA collective bargaining agreements only contain provisions regarding the defined contribution retirement plan and the increase in the employee contribution. Other terms (wages, working conditions, etc.) are covered in separate bargaining agreements between the JHA and its employees.

JEA CEO Paul McElroy explained that 3 of the JEA’s unions agreed to 2.5% to 3% raises with some one-time bonuses; LIUNA (water and sewer workers) and IBEW (electrical linemen) voted down those raises and after subsequent negotiations agreed to 4.5% raises per year with no one-time bonuses. GEPP defined contribution participation for JEA employees is the same as for City employees. The contracts do not contain re-openers because they engaged in broad-scale negotiations, not just wages and pension benefits as the City negotiated with its unions. Phillip Peterson of the Council Auditor’s Office said that he had met with JEA officials that morning and is awaiting requested documentation.

Council Member Gulliford distributed a document compiled by the City Council Research Division of starting and median salaries of city and county law enforcement officers in several Florida jurisdictions which he believes demonstrates that Jacksonville’s proposed pay scale for police officers is not excessively generous.

**Meeting adjourned:** 4:08 p.m.

Minutes: Jeff Clements, Council Research

4.13.17 Posted 5:30 p.m.

Tapes: Council agenda meeting – LSD

 4.12.17