



Taxation, Revenue, and Utilization of Expenditures (TRUE) Commission

Wes Benwick, Chair
Jason Fischer, Vice Chair
Joe Andrews, Secretary

Meeting Minutes.

February 3, 2011
4:00 p.m.

Attendance: Wes Benwick (Chair), Ernest McDuffie, Thomas Martin, Joe Andrews, Mike McCollum, Ryan Jones, Jason Fischer, Marc El Hassan, Greg Anderson, Marcella Lowe, Ted Wendler, Diane Brown, David Lane

Excused: Hiron Peck, Ruth Arnold

Absent: Mark Cowart, Gamal Lyons

The meeting convened at 4:07 p.m. with a quorum present.

Minutes

The revised minutes of the January 6, 2011 commission meeting were approved as distributed.

Presentation: John Keane – Executive Director, Police and Fire Pension Fund

Mr. Keane gave a brief overview of the history of the City's pension plans, from their inception in the 1910s to their suspension during the Great Depression and their reinstatement in 1937. He stressed that the Police and Fire Pension Fund (PFPF) does not establish pension benefits – that is the province of the City Council. The PFPF invests and administers the assets of the fund. He stated that the Jacksonville pension plans are very mainstream by government pension standards, certainly not “Cadillac” plans. The city's benefit package, including pension plan, needs to be competitive in the marketplace in order to continue attracting and keeping good employees. He noted that City employees do not participate in Social Security, a fact that is sometimes overlooked in comparing City employee benefits to those in the private sector.

Police and fire pensions are restricted to a much narrower range of investment options than other types of pensions in Florida, and the PFPF has lobbied for years to have the Legislature change the regulations to allow police and fire pensions to have access to the same range of potentially more robust investment options as other types of pensions. In 2005 a J-bill (Jacksonville-specific legislation) was passed by the Legislature allowing the PFPF to invest in a wider range of investment instruments, but the State Division of Retirement threatened to withhold the fund's share of state-shared insurance premium taxes if it did. After 3 years of litigation the PFPF prevailed and the Division of Retirement withdrew its threat.

Mr. Keane stated that the City Council had a special Pension Sustainability Committee reviewing pension issues, but after 8 months of meetings the committee was advised by the General Counsel's Office not to meet again because the City administration was going to engage in collective bargaining with the employee over pension issues and the council members should not take public positions on pension issues in case the negotiations ended up in an impasse and the City Council would be called upon to render a

final decision on pension benefits. He finds it curious that so much attention is paid in the media to the \$800 million in unfunded accrued actuarial liability (UAAL) of the PFPF, but little to no mention seems to be made to the \$400 million UAAL of the General Employees Pension Plan.

When the pension committee disbanded the PFPF gave the members a list of potential remedies to the UAAL problem, should any of the members be interested in pursuing one or more of the options. To date there has been no sign of interest. The City invited a nationally recognized public finance expert to address the committee before it suspended operations and he suggested that if the City was thinking about issuing pension obligation bonds (POBs) to help fill the UAAL hole, the stock market was at a favorable point in its cycle at that time but the window of opportunity was closing. Since that presentation the stock markets have had very strong recoveries and the time has passed for a POB to be successful. The PFPF's calculations show that issuing \$400 million in POBs at the bottom of the stock market trough in March 2009 would have produced a return of \$356 million already given the 84% recovery of the markets between March 2009 and February 2011.

Mr. Keane stressed that the \$800 million UAAL needs to be put into perspective – it is not owed in a lump sum at one time, but rather will be paid out over the next 50-75 years as current participants work, retire, and live out their lives collecting their pensions. Although it is a large number, there is no imminent danger of bankrupting the City because of this future obligation. He used the analogy of a home mortgage: there is a total amount owed (the mortgage principal or UAAL), and a monthly payment owed (principal and interest in the case of a mortgage; in the case of the pensions, the normal annual contribution and an actuarially-determined portion of the UAAL). As long as the monthly payments are made in a timely manner, the UAAL never needs to be paid in a lump sum. He noted that Jacksonville Community Council Inc. (JCCI) has studied City pension issues 3 times over the last 30 years and has consistently warned that the system is being underfunded and needs a greater annual investment to be made solvent. Instead the City has taken “pension holidays” (suspended annual payments of the employer portion of the cost) when the good performance of investments in boom markets made the funds actuarially “fully funded” The Florida Retirement System, by contrast, is funded by the Legislature every year regardless of the performance of the investments. As a result, in good times that plan may be up to 115% or 120% actuarially funded (seemingly overfunded), but when the markets drop as they inevitably do, the plan may still be 90% funded in contrast with the City pensions which can drop to 40-50% funded in bad markets.

In response to a question about recent reporting in the media about a study done by professors at the Northwestern University School of Management showing that Jacksonville's pension funds are dangerously underfunded and could be in serious financial trouble by 2020, Mr. Keane stated that the study was based on a flawed premise – the assumption of an extremely conservative investment strategy for the pension's assets completely in low-yield municipal bonds. No pension fund is that conservative, so investment earnings will be much greater than those assumed for purposes of the study. In response to a question about the typical retirement age of PFPF participants, Mr. Keane stated that it has been declining in recent years from age 57 to approximately 51 at the present time. He attributed that to a fear on the part of pension participants that the current political rhetoric will lead to a reduction of pension benefits, so they're choosing to lock in their current benefits and retiring before detrimental changes can take place. Commissioner Wendler stated that changes in pension liability reporting currently under consideration by the Governmental Accounting Standards Board, primarily a reduction in the assumed rate of annual return on investments to something below 8% (the City currently assumes 8.5%) will make the UAAL problem even worse.

In response to a question about changing the City's plans from defined benefit to defined contribution (e.g. 401 k personal savings account) systems, Mr. Keane stated that the existing UAAL would still exist and have to be paid off over many decades, and this will be more difficult because fewer and fewer

employees will be paying their share into the traditional pension over time as new hires join the defined contribution plan. He said that no public safety organization in the country uses a defined contribution plan because it presents a problem for persons in dangerous professions like law enforcement and firefighting. A police officer or firefighter who belongs to a defined contribution plan and dies in the line of duty after just a few years on the job would have accrued a very tiny retirement fund for his or her beneficiaries, and that is fundamentally unfair given their sacrifice on the public's behalf.

Committee Reports

Legislative Tracking Committee – Commissioner Andrews reported that the committee is continuing to examine several bills in each legislative cycle and is posing questions to appropriate City officials and gathering information as necessary. At its last meeting the committee questioned a number of recent bills transferring funds from one capital improvement project to another and wondered if this indicated a pattern of poor cost estimations. Mr. Andrews spoke with the City Engineer and is satisfied that these transfers do not indicate a general problem. The funds are being moved within the parameters of the Better Jacksonville Plan project list and merely indicate the difficulty of estimating project costs down to exact amounts.

Performance Committee – Commissioner Anderson reported that the committee met earlier in the day and had reviewed its work over the past 2 years. The four major areas of study have been: 1) Shands Jacksonville indigent care contract; 2) performance measurement/management software acquisition; 3) City budget website improvements; and 4) FAMIS accounting system replacement. The Council Auditor released an audit of the indigent care contract in December 2010 and the City's Chief Administrative Officer has designated the Administration and Finance Department as the oversight agency for the contract, so both of the TRUE Commission's recommendations have been accomplished. The City's performance management system has been installed and is in the testing process. It should be available to the public on the City web site in April. The budget web site was re-worked and improved for last year's budget cycle. Finally, the FAMIS replacement process is just getting underway, and will be a multi-year, multi-million dollar process. Mr. Anderson announced that he would be resigning from the TRUE Commission in the near future in order to devote more time to his run for a City Council at-large seat in the upcoming election and thanked his committee for their good work.

Banking Fund Committee – Commissioner El Hassan reported that he is awaiting feedback from the commissioners on the draft report he circulated in early January so that the report can be finalized and presented to the full Commission for action, hopefully at the March meeting.

Contract Management Committee – Commissioner El Hassan reported that he is awaiting feedback from the commissioners on the draft report he circulated in early January so that the report can be finalized and presented to the full Commission for action, hopefully at the March meeting.

Internal Service Funds Committee – Commissioner Wendler requested commissioners to volunteer to become a part of the committee and to choose one or more internal service fund areas to study in detail looking for potential areas of operational improvement or cost savings.

Auditor's Report

Tommy Carter of the Auditor's Office reported that the office had released two reports since the last meeting: #694 – Supervisor of Elections' audit, and #695 – County court costs attestation.

Chairman's Comments

Mr. Benwick stated that City contract management problems are a persistent finding in Council Auditor audits and TRUE Commission studies and this is an issue where the commission can be of use. Apparently some of the City's largest contracts (Shands Jacksonville indigent care, SMG operations) have the least oversight, and there are many, many smaller contracts that may be under the radar as well. He suggested that the commission may wish to adopt a resolution to the Mayor and City Council with specific recommendations on this topic. Commissioner El Hassan volunteered to compose some ideas and circulate a document to the commissioners for their consideration.

Mr. Benwick reported briefly on the noticed meeting of several commissioners held earlier in the week to discuss issues relating to SMG's contract with the City to operate public assembly facilities. He believes that, leaving aside the politics and personalities involved in the dispute, he believes the one issue that might be ripe for study by the TRUE Commission is SMG's insurance procurement practices. It alleged that the City was overcharged for insurance for 7 years by SMG while a contract provision requiring an in-state competitive procurement process was ignored at the apparent direction of the City's Risk Management Division. Mr. Benwick stated that he will pursue this issue and will ask SMG for documents that might clarify the situation. He sees this as a clear example of the larger issue of the failure to properly manage contracts.

Mr. Benwick suggested the possibility of combining the Performance Committee and the Internal Service Fund Committee.

Motion (Anderson): that the commission combines the Performance and Internal Service Fund Committees into a single committee – **approved unanimously.**

Mr. Benwick cited the City copy center as an example of an internal service fund gone awry, charging rates too low to be self-sufficient, but higher than users could obtain at local private copy centers.

Old Business

None

New Business

None

Commissioner Comments

Commissioner Lowe thanked Greg Anderson for his very effective service to the commission and for his hard work. She also thanked Commissioner El Hassan for his very good contract management report and promised to comment on his Banking Fund draft report.

Commissioner Fischer stated that some federal law enforcement officers do have a defined contribution retirement plan or a plan that combines features of both a defined benefit and defined contribution plan, so contrary to John Keane's earlier assertion, not all law enforcement officers in the U.S. have defined benefit retirement plans.

Commissioner McDuffie raised questions about the City's policy regarding "feeding" parking meters for additional parking time once the original time limit of the meter has expired. He believes it is unfair to charge a driver with parking overtime on a meter if the driver feeds in additional payment for additional time before the meter expires. The instructions on the meter do not specifically say that a vehicle must be moved after the time limit of the meter has been reached. Chairman Benwick suggested that Commissioner McDuffie perform some research to see what the Ordinance Code says and how the policy is enforced and report his findings to the Commission at its next meeting.

Motion (Andrews): that the TRUE Commission adopt a resolution opposing the adoption of pending Ordinance 2011-50 which authorizes the Public Works Department to levy a \$13 charge for a new recycling bin.

After some discussion the commission decided that the issue needed further research, particularly what the Ordinance Code says about use of alternative containers.

Public Comments

None

Next meeting

The commission's next meeting is scheduled for Thursday, March 3rd at 4:00 p.m.

There being no further business, the meeting was adjourned at 5:45p.m.

Posted 2.10.11
5:00 p.m.

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