JACKSONVILLE CITY COUNCIL

TRUE COMMISSION
LONG TERM FISCAL HEALTH COMMITTEE MEETING MINUTES
January 21, 2009
3:00 p.m.

City Council Conference Room B
Suite 425, City Hall
117 W. Duval Street

Attendance: Joe Andrews (Chair), Committee Member John Palombi

The meeting was called to order at 3:04 p.m. by Chairman Joe Andrews.

Commissioner Palombi resumed his review of pension issues from the previous committee meeting. Two fundamental questions are 1) how big is the problem (compared to other City financial issues) and 2) when does it become a serious financial problem? The City has made promises to existing employees and it's extremely unlikely that there would be any changes for them – they will almost assuredly be grandfathered in and any changes would only apply to new hires. Any changes made now won't likely save the City any substantial amount of money for 8-10 years. City Council is currently considering an ordinance to create a defined contribution retirement plan, likely to become effective in the second quarter of FY09 as an option for employees. The City thinks a substantial number of employees (30-60% will choose that plan because they don't anticipate being City employees for 30 years as previous generations of employees did.

The latest actuarial report for 2008 will arrive in the next month or so. The General Employees Pension Plan provides for early retirement with 20 years of service and minimum age of 55 with a benefit of 50% of the average of the last three years of salary. The maximum pension (80% of the average of the last three years' salary) is obtained after 32 years of service. The Police and Fire Pension Fund offers full retirement after 20 years of service. A problematic feature of the plans from an actuarial standpoint is the lifetime spousal benefit (75% of the retiree's benefit for the remainder of the surviving spouse's life), which could continue for many years after the retiree's death. Mr. Palombi stated that defined benefit retirement plans are dinosaurs in the modern age; except for the largest corporations and most governments, that's not the way retirement benefits are provided any more. The plans' DROP feature is also problematic in its assumption of a guaranteed rate of return on the employee's contributions (8.4% for the GEPP, 8.5% for the PFPF) that has not been provided by the stock market in the last 10 years.

City pension plan participants do not participate in Social Security and neither employees nor the City make any payments to Social Security (7.65% of payroll required of employers that do cover their employees).

Since the level of unfunded liability fluctuates up and down over time, what's an appropriate level of unfunded liability that can be considered acceptable? The GEPP has approximately 5,000 active employees, 4,000 retirees, and an annual benefit payout of $106 million. In FY09 employees are paying 8% of their salary into the fund which the City is matching with a 10% of payroll contribution (5% for "normal" cost and 5% to fund the accrued unfunded liability). The $1 billion unfunded combined liability of the pension plans looks frightening as a raw number, but is not so daunting when you consider that the figure applies to a 30-year time frame. Still, a $100 million annual City contribution to the pension funds is unsustainable given the current budget climate.

Pension obligation bonds have been suggested as one possibility to fill the liability gap. Bonds are sold at a low point in the stock market cycle to provide capital to invest in the pension fund with the expectation that the rising value of the investment in the stock market in the subsequent economic recovery will fill the unfunded liability for the cost of the debt service over the 20 or 30 year life of the bonds.

Commissioner Palombi suggested that the committee go back to its discussion at its first meeting and try to identify 3 to 5 big issues that are really serious and really need to be addressed to avoid a future budget disaster. Pension obligations certainly seem like one of those issues, given the rapidly increasing percentage of the General Fund that required pension contributions are going to represent over the next few years. The committee needs to identify a couple of key issues and do some in-depth research if it hopes to be able to recommend anything of value to the full commission to in turn recommend to the Mayor and City Council for the FY09-10 budget cycle. There are no easy or simple options, but with some work the commission could build a rational, defensible case for at least some proposed changes.

Chairman Andrews stated his feeling that Jacksonville is becoming a microcosm of the United States as a whole, with the population largely dependent on government services and assistance and therefore wedded to the taxes that pay for them. There is also a portion of the population very dependent on government assistance that doesn't pay any taxes to support them.

The committee tentatively identified three areas worth further consideration: 1) social services, 2) infrastructure, and 3) City pensions.

There being no further business, the meeting was adjourned at 4:45 p.m.

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