JACKSONVILLE CITY COUNCIL

TRUE COMMISSION
PERFORMANCE COMMITTEE MEETING MINUTES
October 24, 2012
3:00p.m.

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

Attendance: Committee Members Ted Wendler (Chair), Joe Andrews and Tom Martin
Excused: Diane Brown

Also: Danny Becton (commissioner-designate), Jeff Clements – Council Research Division

The meeting was called to order at 3:00 p.m. by Chairman Wendler.

Chairman Wendler distributed copies of a number of articles from various publications relating to municipal pension reform. Commissioner Andrews also distributed a public policy briefing paper from the James Madison Institute on pension reform in Florida.

Commissioner Wendler demonstrated the pension illustration spreadsheet he has been developing using information about the City's Police and Fire Pension plan benefits and historical employer and employee contribution rates and plan investment returns. The object is to be able to plug in a hypothetical employee's age, years of service and salary and calculate the defined benefit payout due versus the actual assets available to pay the promised benefit. The spreadsheet shows that, at least for the Police and Fire Pension Fund, the contributions going into the plan are not nearly sufficient to pay the promised benefits for more than 15 or 17 years after the employee retires.

Commissioner-designate Becton said that the assumptions built into the City's pension plans, both police and fire and general employees, are wildly unrealistic. The 8.4% assumed rate of return is too high, the 7% or 8% employee contribution is too low, and the full retirement years of service for police and fire is too low at only 20 years. These assumptions may have been reasonable in the 1960s or 1970s, but certainly not now. Too much has changed in the intervening years. Commissioner Andrews objects to the fact that the taxpayer is "on the hook" for the cost of the unrealistic expectations. The employees in the plan have no incentive to want to make any changes if the City is obligated (by raising taxes, if necessary) to fulfill all of the unrealistic promises and make the defined benefit plan whole at any cost. All the risk is on the City and the taxpayer, none on the employees, including the risks of bad stock market returns, poor investment management by the pension fund boards, and excessive salaries and administrative costs granted by the pension fund board to its administrators.

The committee discussed whether the model needs to have accurate historical data on investment returns back to the 1970s. There as some sentiment that accuracy from the 1990s onward was probably sufficient, since the returns from the 1970s and 1980s would only be applicable to employees who are likely already retired.

The group discussed that the employee participants in the pension plans and the citizen taxpayers have very different perspectives about the pension plans. Whether the promised benefits under the defined benefit plans are realistic or not, the employees believe they are entitled to those benefits regardless of how they are funded. The police and fire unions will point to the 30-year agreement between the City and the Police and Fire Pension Fund and refuse to even consider reducing benefits. Citizens see a package of benefits that far exceed what their private sector retirement plans offer and are unwilling to pay higher taxes to fund that level of benefits. Commissioner Martin said that the City could never raise property taxes fast enough or high enough, even if it wanted to, to meet the growing pension costs because of the state's restrictions on property tax growth rates. Commissioner Andrews cited the Laffer Curve, and economic principle demonstrating the eventual decreasing rate of return as taxes continue to increase. The general public pays very little attention to City finances and won't recognize the looming pension problem until it reaches disastrous financial proportions and clearly affects the City budget.

Commissioner Andrews advocated for using the growing literature on municipal bankruptcy to demonstrate how Jacksonville's pension funding problems are leading the city down exactly the same path as other cities in the U.S. that have had to declare bankruptcy in the last couple of years. The Wendler spreadsheet will bolster the argument that benefit costs are growing faster than they can be funded, and help demonstrate that Jacksonville is on the same road to fiscal disaster. The TRUE Commission needs to figure out how to make the magnitude of the problem known and to propose some reasonable solutions to solve the problem. How quickly the prospect of bankruptcy becomes a reality will depend on the state of the economy and the particularly stock market returns.

Commissioner Wendler hopes to have his model finalized by the committee's next meeting on November 1st, and Commissioner Andrews will try to have a summary of the municipal bankruptcy literature prepared for review.

There being no further business, the meeting was adjourned at 4:34 p.m.

Jeff Clements, Chief
Council Research Division
630-1405

Posted 10.26.12
5:00 p.m.