



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

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

## Meeting Minutes.

April 7, 2011  
4:00 p.m.

**Attendance:** Marcella Lowe (Acting Chair), Thomas Martin, Joe Andrews, Mike McCollum, Ted Wendler, Diane Brown (dep. 5:50), Ryan Jones, David Lane, Marc El Hassan (arr. 4:25)

**Excused:** Wes Benwick, Hiron Peck, Ruth Arnold, Jason Fischer, Ernest McDuffie

**Absent:** Mark Cowart, Gamal Lyons

The meeting convened at 4:10 p.m. without a quorum present.

### Presentation: Mickey Miller – City borrowing and Banking Fund

Mr. Miller stated that he began his career with the City of Jacksonville in 1972, and then spent 20 years in Orlando before returning to Jacksonville as the Chief Financial Officer in 2005. When he made his first visit to the bond rating agencies in New York after returning to Jacksonville they told him the city had two big problems – liquidity and a dysfunctional capital planning process. The City had a misconception about its debt capacity because there were many theoretical revenue streams to pledge against borrowing, but most were already being used to pay for on-going operating expenses, so the actual borrowing capacity was smaller than it seemed.

The City's underlying bond rating is AA or equivalent because we have a fairly stable economy that isn't overly reliant on tourism and retirement like much of the rest of Florida. In 2005 the state government mandated that all Florida localities drastically improve their Capital Improvement Program (CIP) process. Jacksonville badly needed to improve its CIP document and process, which basically consisted of a one-year list of funded projects and a collection of "wish list" projects in the remaining years, some of which remained on the list for many years as newer projects were added, funded and constructed. The vast majority of the projects on the CIP are for capital maintenance rather than new construction. Mr. Miller stated that his personal goal is to have the City budget the equivalent of 1 mill annually (currently about \$50 million) for capital improvements, but that is one of the first items to be cut each year when the budget reduction process begins.

Two of the biggest items on the CIP are the ash site remediation work (at least \$100 million) mandated by a settlement agreement with the U.S. Environmental Protection Agency and \$36 million in new construction and equipment purchases for the Fire and Rescue Department as outlined in the TriData study. The phasing of the TriData ten year construction plan has been pushed back for several years because there is no source of funding. Another huge component of the CIP is the Better Jacksonville Plan projects, which amounted to \$2.25 billion in road and building projects, approved by the voters via referendum, and funded with a sales tax pledge. Almost all of the vertical construction projects have been

completed except for the on-going courthouse construction, but the \$1.5 billion list of road projects is not completed because the revenue stream over the last several years has been insufficient to pay for all the promised projects. The City's outstanding debt is approximately 50% for BJP projects (voter approved sales tax pledge) and 50% for other projects with General Fund pledges.

The City's new debt management policy is based on affordability (what can we afford to borrow) rather than on capacity (how much could we potentially borrow with our existing revenue streams). The policy is codified in the Ordinance Code and contains several targets and minimum/maximum ranges. The administration is making a concerted effort to increase the 10 year debt principal pay-down from 30% to 50% by FY15. Florida is in the midst of a 3-year economic downturn after 30 years of nearly continuous growth, so we are in unprecedented territory. The City's budget is completely out of kilter for the next 5 years, with projected deficits rising from \$65 million in the upcoming FY12 to \$195 million by FY16.

In response to a question from Commissioner Wendler about the potential effect on the City's bond rating if the \$1.6 billion of unfunded accrued pension liability were to show up on the City's books, Mr. Miller stated that when the private sector had to show that liability on its books there was very little effect on bond ratings. He also noted that the \$1.6 billion figure may understate the accrued liability by several hundred million dollars. The information about the size of the liability is already in the annual financial report, it's just there in the form of footnotes and not highlighted as a stand-alone entry. The effect of booking that unfunded liability is a difficult thing to determine because there are so many assumptions built into the number (return on investment, which mortality table is used, etc.). The City's current pension plan is too benefit-rich and the risk is too heavily skewed to the employer. Some combination of a defined benefit and defined contribution plan is needed with an overall reduced benefit level. Pension obligation bonds (POBs) were discussed. That vehicle only works if you can time the stock markets correctly and get in at the bottom of a trough and it appears we have missed that mark for this cycle. If you issue POBs and the market falls further, then you're in an even deeper hole than before. If the timing was ever right and if the City were to consider issuing POBs then Mr. Miller would recommend doing several issues rather than one large issue. In response to a question from Commissioner Wendler about whether the unfunded pension liability is the biggest problem facing the City, Mr. Miller stated that in his opinion the misconception that the UAAL is not a problem or is an illusion or will solve itself is one of the biggest problems the City faces. The Mayor recognizes that it's a serious problem and is the first mayor to propose collective bargaining over pension issues, but the police and fire unions have been very opposed to bargaining over pensions.

With regard to the Banking Fund, the City has never been able to get to the desired level of disconnect between project amortization and amortization of the underlying bonds, so has been unable to recoup and re-loan funds more than once before the underlying bonds have to be repaid. There is insufficient cash flow to make that possible, so the Banking Fund is failing to meet that portion of its intended purpose. In response to a question about why the Banking Fund cap has grown so much in recent years, Mr. Miller stated that it's because the Banking Fund is the only borrowing mechanism the City is using at present. He did not think that the cap had been raised more frequently than once a year in conjunction with the budget, except for a clean-up bill filed late last year to correct a problem with the annual Banking Fund program list adoption. He expressed a preference for a strong "pay-as-you-go" program for many short term capital assets (computers, vehicles) rather than borrowing for them, but the tight budget has made this difficult to achieve. The Banking Fund blends a variety of debt lengths (5 years, 8 years, 12 years, 20 years, 25 years) so there are different borrowing vehicles that match up with the life of the assets being purchases.

Mr. Miller explained that 6 revenue sources provide 88% of the General Fund revenue and 3 of those are uncontrollable by the City because the rates on the state sales tax, city and county revenue sharing from the state, and the utility service tax are all controlled by the state. The only sources over which the City

has direct control are the property tax, electric franchise tax (currently 3% rate with an additional 3% available), and the JEA annual contribution. The upcoming budget looks like it will start with at \$65 million hole, in part because the City's taxable property values are still falling. In the last 10 years the vast majority of all growth in the City budget has been in public safety (Sheriff's Office and Fire Department) and the Jacksonville Public Library (6 new branches built under the Better Jacksonville Plan). The remainder of the government has shrunk substantially over the last decade. In response to a question from Commissioner McCollum about how repayment of borrowing from the Banking Fund is handled by the using departments, Mr. Miller explained that it's primarily done through the CIP process and budget transfers from the borrowing departments for the debt repayment. In response to a question from Commissioner Martin about the seeming fixation on the millage rate rather than on the amount of property tax revenue needed for the budget, Mr. Miller briefly explained the complexities caused by the Save Our Homes cap on taxable values, revenues and the effect on individual homeowners from the "catch-up" provision.

### Minutes

Commissioner El Hassan having arrived during the presentation and a quorum now being present, the revised minutes of the March 3, 2011 commission meeting were approved as distributed.

### Committee Reports

Legislative Tracking Committee – Commissioner Andrews reported that the committee has been tracking several issues: 2010-856 (transient vendor location regulation) is still pending in committee; 2010-884 (Hemming Plaza design competition) was withdrawn by Council in February; 2010-902 (Riverside duck pond dredging) was approved at the last Council meeting; 2011-50 (fee for new/replacement recycling blue bins) – the TRUE Commission's recommendations approved at the March meeting have been forwarded to Council in the form of a resolution; the bill is still pending; 2011-188 (appropriation of \$1.5 million for new soccer fields at Patton Park) is still pending and Mr. Andrews will be following it closely to understand the justification for the project. The committee's April 15<sup>th</sup> meeting has been moved from 12 noon to 9:00 a.m.

Performance Committee – Commissioner Wendler reported that 4 of the 5 committee members attended the City Council's Ad Hoc FY11-12 Budget Savings Review Committee meeting on April 5<sup>th</sup> and found it very informative. The committee has decided to confine its efforts to reviewing the city's internal service funds and studying the unfunded pension liability issue.

Banking Fund Committee – Commissioner El Hassan reported that he would take Mr. Miller's presentation and comments into consideration when reviewing his draft committee report and would present a revised version for commission action at the May meeting..

### Auditor's Report

Tommy Carter of the Auditor's Office reported that the office had released one report since the last meeting – #697, City Accounts Receivable. He noted that the Ad Hoc Budget Committee has 4 more meetings before it makes its report in early June. In response to a question from Commissioner Andrews about the status of the JEDC audit, Mr. Carter said that it is ongoing, but the one of the auditors working on the project has left the Council Auditor's Office and that has slowed its progress. Commissioner Lowe requested a list of the Auditor's upcoming audits for the next meeting.

### Chair's Comments

As the Acting Chair, Commissioner Lowe made several points:

- She sees the need to organize a new commissioner orientation session for the large number of new members who have not had the experience. She volunteered to organize the event with

Chairman Benwick's assistance and suggested that scheduling it for one hour ahead of an Ad Hoc Budget Committee meeting might work best for efficiency and reduced trips downtown.

- She encouraged the commissioners to attend the Ad Hoc Budget Committee meetings if at all possible, as they are very informative and a good opportunity to get an in-depth look at how several of the City's departments and divisions operate.
- She encouraged the reading of Council Auditor's Office audits and reports – they are a wealth of information about City finances and operations.
- She encouraged active participation in the TRUE Commission subcommittees; that's where the bulk of the work of the commission should be done and active members are a necessity.
- She solicited volunteers to become candidates for TRUE Commission officers for next year and to volunteer to serve on the Nominating Committee.

Old Business

Ms. Lowe reported that the SMG Issues Committee had met and heard additional discussion of insurance and food service contractor issues, and Mr. Benwick stated there that he hoped to complete a report for the commission's consideration within the next month.

New Business

None

Commissioner Comments

None

Public Comments

None

Next meeting

The commission's next meeting is scheduled for Thursday, May 5th at 4:00 p.m.

There being no further business, the meeting was adjourned at 6:00 p.m.

Posted 5.9.11

10:00 a.m.

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