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**Mayor Alvin Brown**

### **Remarks to Jacksonville Retirement Reform Task Force January 21, 2014**

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Thank you, Chairman Scheu, Task Force members, and the Pew Charitable Trusts team.

I also want to thank Police and Fire Pension Fund Administrator John Keane for his presentation.

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As a task force, you have provided the final burst of momentum needed to achieve retirement reform, and I am very grateful for your efforts.

We can all agree on one thing.

The issue of retirement reform has hovered over Jacksonville for long enough.

Let's achieve retirement reform now.

Last week, the financial markets gave us a powerful reminder of the need for speed.

On Thursday, the Moody's ratings agency announced that Jacksonville was one of 256 American cities being placed on credit review for the next 90 days.

Moody's also announced that it was increasing the importance of pensions in its credit assessment.

We need to deliver if we want to maintain and enhance our City's already strong credit rating.

A downgrade in that credit rating would not only hurt our city prestige but also hurt taxpayers.

Let's achieve retirement reform now.

Taxpayers need us to achieve reform so we can stabilize our annual contribution to the Police and Fire Pension Fund and provide quality services to the citizens of our community.

Sheriff Rutherford and Chief Senterfitt need us to achieve reform so they can retain and recruit without uncertainty about pensions.

Let's achieve retirement reform now.

We must finish this as soon as possible so that taxpayers, city employees, and the ratings agencies know that Jacksonville means business.

You are scheduled to complete the task force process no later than February 12, 2014.

Following your recommendations, my administration will move quickly to work with police and fire employees, the Police and Fire Pension Fund, and City Council to make retirement reform a reality.

Taxpayers need closure. Our city employees need closure.

And if we move quickly, we will send a strong message of resolve to the financial markets.

Let's achieve retirement reform now.

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This task force has correctly identified three ways to build on the foundation laid by the previous retirement reform agreement.

First, we should ensure governance that promotes accountability, transparency, and increased investment performance at the Police and Fire Pension Fund.

Second, we should design a pension benefit structure that is both affordable and competitive.

Third, we should accelerate the payment of the unfunded liability.

The Task Force has already done a strong job addressing the issue of governance.

Today, my team and I will present a comprehensive plan that expands upon our previous agreement and addresses the other two areas.

We believe this plan protects taxpayers and respects city employees.

In the months since the City Council defeated the previous agreement, my team and I have closely analyzed the concerns that Council members and external stakeholders voiced about that agreement.

We heard observations that City Council members made while the previous agreement was pending.

We reviewed the Civic Council and JAX Chamber's letters and the *Times-Union's* editorials.

We have listened very closely to your comments and opinions at these Task Force meetings.

We have reflected on the previous agreement and the views that John Keane and police and fire employees have expressed about retirement reform.

We have incorporated all of this input into the comprehensive plan that we are presenting today.

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On governance, you have already made smart and innovative proposals to enhance oversight at the Police and Fire Pension Fund.

I appreciate this huge contribution to the critical and often overlooked governance issue.

While I still believe strongly that the City should appoint the fifth member of the Police and Fire Pension Fund Board of Trustees, the governance proposals that Chairman Scheu and the Task Force have made take us in the right direction.

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Today's proposal keeps the benefit reforms for new employees that we had in the previous agreement.

Some expressed concern that the previous agreement did not seek enough "shared sacrifice" from current employees.

As my administration has previously explained to this task force, Florida law protects benefits already earned by retired or current employees.

That limits our ability to impact the annual City contribution or unfunded liability through changes in the benefit plan for current employees.

In light of Florida law, and as a matter of fairness and competitiveness, I have concerns about major changes to the current employee benefit package.

But today, we are proposing three adjustments related to current employees.

First, we propose a new schedule for current employees to increase their pension contributions.

Under our proposal, current police and fire employees would see an immediate increase in their pension contribution from 7% to 8%.

As soon as the City restores the 2% pay cut that fire employees took in 2010, and police employees took in 2012, the pension contribution for current police and fire employees would increase from 8% to 10%.

Second, we propose to modify the guaranteed rate of return for current employees who are not yet eligible for the Deferred Retirement Option Program (DROP).

Right now, DROP benefits earn a guaranteed 8.4% rate of return.

Under our proposal, DROP benefits would earn the actual rate of return subject to a cap of 10% and a floor of 0%.

This is the same range identified in our "Back-DROP" proposal for new employees.

Third, we propose to modify the Cost of Living Adjustment (COLA) for current employees on a going forward basis.

Police and fire employees currently receive a guaranteed 3% COLA.

Under our proposal, the COLA on benefits earned in the past would not change.

But the COLA on benefits earned in the future would be capped at 1.5% and tied to the Social Security COLA.

This is the same COLA that new employees would receive on all of their benefits.

We believe these proposed changes will address the desire to have current employees participate in a retirement reform solution – without unduly impacting our ability to recruit and retain first responders.

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On the unfunded liability, I have previously said that this City should commit itself to doubling the funded status of the Police and Fire Pension Fund – increasing it from approximately 40% to 80% -- as soon as fiscally prudent.

Governance changes can help reduce the unfunded liability if they increase investment returns.

Reforms to the benefit structure will also reduce the unfunded liability.

But we need to do more, and the question is how.

I know that some Task Force members have suggested devoting around \$200 million a year from the general fund budget to the City's police and fire pension contribution.

However, I would urge you to keep in mind what Chairman Scheu and Charlie Appleby said at the last meeting.

There has to be a balance.

While we want to get to 80% funded status as quickly as possible, we also need to preserve city services that contribute to our quality of life.

\$200 million annually is a heavy burden for the City general fund to bear if we want to fund libraries, parks, public works, economic development, and other critical priorities.

Some Task Force members have suggested increasing taxes to accelerate payment of the unfunded liability.

I respect that there are different opinions about raising taxes, but I cannot support a tax increase.

Our economy is growing, but that growth is fragile.

Many of our fellow citizens are still struggling to remain in their homes and keep their jobs or businesses.

But we do not need to raise taxes to achieve comprehensive retirement reform.

We can accelerate the payment of the unfunded liability through partnership.

As you know, the Jacksonville Electrical Authority (JEA) is the City's largest financial partner.

Many JEA employees are in the City's General Employee Pension Plan, so our utility also has a stake in reform.

Since last time I spoke to you, our team has been meeting with JEA.

While we have not yet concluded those discussions, I am confident that we will find a way to partner that supports the JEA's bottom line and provides the City with a funding source to accelerate the payment of our unfunded liability.

The plan we are presenting today assumes that we can reach agreement with JEA to increase our contribution by an additional \$40 million annually until the Police and Fire Pension Fund is 80% funded.

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If the City is willing to make innovative contributions toward reducing the unfunded liability, I would respectfully suggest that the Police and Fire Pension Fund do the same.

At present, the State provides approximately \$9 million in so-called "Chapter Funds" to the PFPF.

Half of these funds go to help pay the cost of base pension benefits.

The other half are dedicated to enhanced pension benefits.

As part of a final agreement, I hope the Fund agrees to devote the \$4.5 million in annual enhanced benefit chapter funds to the unfunded liability until its funded status reaches 80%.

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You've heard a lot of information this afternoon.

Let's get to the bottom line.

According to our actuary, this proposal would save the general fund \$2.75 billion over 35 years.

It would stabilize our annual contributions to the Police and Fire Pension Fund.

It would raise the funded status of the Police and Fire Pension Fund from 39% today to 80% in Fiscal Year 2028 – before the end of the next decade.

When I am finished, our City retirement reform team will walk you through the details of this comprehensive proposal and the associated numbers.

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Thank you again for your time today and for your selfless service to our community.

We make these suggestions in the spirit of cooperation and coordination, and in the hope that they assist your work over these final meetings.

Let's achieve retirement reform now.