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Mayor Alvin Brown
Remarks to Jacksonville Retirement Reform Task Force
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Thank you, Chairman Scheu.

It is an honor to be here today with such a distinguished group of Jacksonville citizens.

As Mayor, I want to thank you for your service on the Jacksonville Retirement Reform Task Force.

You are devoting your time, energy, and thoughtfulness to the most important financial issue that the City of Jacksonville faces.

It is an important issue to taxpayers. Our annual City contribution to the Police and Fire Pension Fund has grown from \$10 million a decade ago to \$148 million this year. We can't sustain this kind of growth. We need to finalize reform if we want to provide quality services to the citizens of our community.

It is also an important issue to our hard-working police and fire employees. Public safety employees put their lives on the line for us and shouldn't have to wonder how this issue will be resolved. We need to finalize reform so that Sheriff Rutherford and Chief Senterfitt can retain and recruit without uncertainty about pensions complicating that task.

It is an important issue to the financial markets. The Fitch Ratings agency has described the City's current pension liability as "a key credit concern" and "a threat to credit quality". We need to finalize reform so we can maintain and enhance our City's already strong credit rating.

I also want to thank the Pew Charitable Trusts for their participation in this task force process.

As Chairman Scheu indicated in his Sunday *Times-Union* op-ed, Pew chose to participate because they believe that Jacksonville has the political will to achieve retirement reform.

From the perspective of the Mayor's Office, I can assure you that we have the will. Solving this challenge has been a top priority since I was elected.

I greatly appreciate City Council President Gulliford's commitment to the task force process.

While I will make some specific suggestions later in my presentation, please allow me to make a more general one now.

Through this task force, let's produce more than just recommendations. Let's produce a retirement reform plan that we can implement with City Council approval. That will mean agreement among the different stakeholders so that we can achieve final resolution instead of more litigation.

Taxpayers deserve closure. Our city employees deserve closure. The financial markets need closure. Let's give it to them through this task force process.

By now, most of you fully understand the financial and legal challenges facing our Police and Fire Pension Fund.

We face unsustainable pension costs in our annual City budget.

We have an unprecedented unfunded liability.

We face legal and operational hurdles to fixing these challenges.

My administration worked hard to address these challenges in the agreement we reached with the Police and Fire Pension Fund.

As you know, that agreement would have implemented some of the most significant pension benefit reforms in recent Florida history. Those reforms were more aggressive than either the Florida Retirement System (FRS) or other major cities in Florida.

Through those reforms, the agreement would have lowered City of Jacksonville public safety pension costs by \$1.2 billion over 30 years.

The agreement would have raised the funded status of the Police and Fire Pension Fund (PFPF) from 38% today to 71% by the end of the next decade.

Last but not least, that agreement would have strengthened PFPF governance through stringent selection criteria for the next PFPF Executive Director and the fifth Member of the Police and Fire Pension Fund Board of Trustees.

I make these points not to re-live the past, but to offer that agreement as a foundation on which this task force can build a final solution.

We have made great strides toward consensus. The finish line is in our sights. I am committed to doing everything in my power to assist you on this final lap.

Chairman Scheu has correctly identified three ways in which this task force can build on the foundation laid by the agreement my administration reached earlier this year.

First, we can accelerate the payment of the unfunded liability.

Second, we can ensure that the pension benefit structure is both affordable and competitive.

Third, we can increase the chances of improved investment performance through governance that ensures accountability and transparency at the Police and Fire Pension Fund.

As you begin to tackle each of those priorities, please allow me to offer a few specific suggestions.

On the unfunded liability, this City should commit itself to doubling the funded status of the Police and Fire Pension Fund as soon as fiscally prudent.

Our goal should be to increase the funded status from approximately 40% now to at least 80% no later than the end of the next decade.

The question is how. Reforms to the benefit structure will make a significant difference on the unfunded liability. Governance changes can also reduce the unfunded liability if they increase investment returns.

But we will still need to do more.

I have two specific suggestions for you to consider.

First, let's explore how we can leverage City assets to lower the unfunded liability.

I have concerns about simply transferring real estate assets to the Police and Fire Pension Fund.

However, the Office of Economic Development and Department of Public Works are currently conducting an analysis to determine how we should best utilize City real estate assets.

Assuming we make governance changes at the PFPF, I believe that the City could sell valuable properties, with the sale proceeds going to reduce the unfunded liability.

Once sold, those same properties would generate annual ad valorem revenues that could also be dedicated to reduce the unfunded liability.

Second, I have directed members of my administration to communicate with independent authorities such as the Jacksonville Electrical Authority (JEA) to determine if we can partner to help address this unfunded liability challenge.

As you know, JEA contributed more than \$230 million to the City of Jacksonville in this year's budget. The authority is our largest financial partner. Many JEA employees are in the City pension system, so our utility also has a stake in overall retirement reform.

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 of the time of the settlement agreement, the PFPF had a surplus of more than \$20 million in its Enhanced Benefit Account.

As part of a final agreement, the Fund could agree to devote the more than \$20 million balance in the Enhanced Benefits account and the \$4.5 million in annual enhanced benefit chapter funds to paying down the unfunded liability.

As to the benefits, the settlement agreement contained some of the most significant pension benefit reforms in recent Florida history. Those reforms were more aggressive than either the Florida Retirement System (FRS) or other major cities in Florida.

In the time since that agreement was announced, some have expressed the concern that it 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 too many changes to the current employee benefit package.

But if the committee does intend to explore these issues, you may want to address two questions.

First, what should current employees contribute toward their pensions in light of the contribution we have proposed for new employees?

Second, given recent market conditions, should we have a guaranteed 8.4% rate of return for current employees who will ultimately participate in the Deferred Retirement Option Program (DROP)?

Finally, as others have clearly stated, we must closely review the governance structure at the Police and Fire Pension Fund. Now more than ever, it is critical that the Fund produce the best possible return on its investments. Governance that values accountability and transparency can help with that goal.

First, the City must have a real say in decisions that have major impacts on City finances.

I agree with Council President Gulliford that the City should appoint three members of the Police and Fire Pension Fund Board of Trustees. Right now, the City Council selects two members of the Board. I would respectfully suggest that as a matter of balance the Mayor should appoint the third.

Second, we must have the right selection process for the next PFPF Executive Director.

John Keane has provided more than 50 years of valuable service to this community, including nearly a quarter century at the Police and Fire Pension Fund. We are very grateful for his service.

But at some point, John will decide to move on and the Fund will need a successor. So it is critical that we have a rigorous selection process and selection criteria for the tall task of filling John Keane's shoes.

Third, we should reach agreement on transitioning the Fund from a body that locks in benefits for decades to one that solely manages assets.

As you know, the City has traditionally established pension benefits with the Police and Fire Pension Fund through the so-called "Thirty Year Agreement". That document currently has an expiration date of September 30, 2030.

This approach appears to be unique among large cities in Florida.

Last month, I hosted a meeting of the Florida Urban Partnership, which is comprised of the mayors of Florida's largest cities.

Each of the mayors in attendance expressed surprise when they heard that Jacksonville has not historically negotiated employee pension benefits through collective bargaining.

Those cities, which are not in the Florida Retirement System, have the ability to address retirement issues on a regular basis to deal with changing circumstances.

In years past, we haven't had that ability. We should. Let's use this opportunity to return the discussion of pension benefits to the collective bargaining process.

When your work is complete, and we have a consensus plan that City Council adopts, we will be able to say that retirement reform was a historic step for Jacksonville.

It will show that together, we made the right strategic choice. It will show that we are acting with vision and conviction. It will show that we are taking Jacksonville to the next level.

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