

## HOUSE OF REPRESENTATIVES LOCAL BILL STAFF ANALYSIS

**BILL #:** HB 577 City Pension Fund for Firefighters and Police Officers in the City of Tampa, Hillsborough County

**SPONSOR(S):** Young and others

**TIED BILLS:** **IDEN./SIM. BILLS:** SB 976

REFERENCE	ACTION	ANALYST	STAFF DIRECTOR or BUDGET/POLICY CHIEF
1) Community & Military Affairs Subcommittee	15 Y, 0 N	Nelson	Hoagland
2) State Affairs Committee	15 Y, 0 N	Meadows	Hamby

### SUMMARY ANALYSIS

The Firefighters and Police Pension Fund for the City of Tampa was created by special act in 1933. HB 577 authorizes the City of Tampa to enter into a supplemental contract with firefighters and police officers to increase the amount of pension benefits received by a widow/widower or child/children if a member dies in the line of duty. The bill also allows a joint annuitant who is a lawfully wedded spouse to be eligible for a "13th check."

According to the Actuarial Statement of Fiscal Soundness provided by the Department of Management Services, Division of Retirement, the bill complies with the requirements of s. 14, Art. X of the State Constitution, satisfies the actuarial cost impact provisions of part VII of ch. 112, F.S., and has no fiscal impact on the state. The cost of additional benefits will be paid by increases in the city and member contributions.

The bill provides an effective date of October 1, 2012.

## FULL ANALYSIS

### I. SUBSTANTIVE ANALYSIS

#### A. EFFECT OF PROPOSED CHANGES:

##### **Present Situation**

##### State Constitution: Governmental Unit Retirement and Pension Systems

Section 14, Art. X of the State Constitution provides that a governmental unit responsible for a retirement or pension system supported wholly or partially by public pension funds may not, after January 1, 1977, provide an increase in benefits to members or beneficiaries without concurrent provisions for funding the increase on a sound actuarial basis.

##### Florida Statutes: The Florida Protection of Public Employee Retirement Benefits Act

Part VII of ch. 112, F. S., the “Florida Protection of Public Employee Retirement Benefits Act,” was adopted by the Legislature to implement the provisions of s. 14, Art. X of the State Constitution. This law establishes minimum standards for operating and funding public employee retirement systems and plans. The act is applicable to all units of state, county, special district and municipal governments participating in or operating a retirement system for public employees, which is funded in whole or in part by public funds.

Section 112.63, F.S., provides that a unit of local government may not agree to a proposed change in retirement benefits unless the administrator of the system, prior to adoption of the change by the governing body, and prior to the last public hearing thereon, has issued a statement of the actuarial impact of the proposed change upon the local retirement system, consistent with the actuarial review, and furnished a copy of such statement to the Division of Retirement, Department of Management Services. The statement also is required to indicate whether the proposed changes are in compliance with s.14, Art. X of the State Constitution and with s. 112.64, F.S., which relates to administration of funds and amortization of unfunded liability.

Pursuant to s.11(a)(21), Art. III of the State Constitution, s. 112.67, F.S., prohibits special laws in conflict with the requirements of the Act.

##### Firefighter and Police Pensions: Chapters 175 and 185, F.S.

Chapters 175 and 185, F.S., respectively, provide the statutory authority for municipal and special fire control district firefighter pensions, and municipal police pensions. These acts were established by the Legislature to provide a “uniform retirement system” providing defined benefit plans for firefighters and police officers, and setting standards for operation and funding of these systems. Retirement systems or plans are to be managed, administered, operated and funded in such a manner as to maximize the protection of the retirement trust funds.

Chapter 175, F.S., was originally enacted in 1939 to provide an incentive—access to premium tax revenues—to encourage the establishment of firefighter retirement plans by Florida cities. Fourteen years later, in 1953, the Legislature enacted ch. 185, F.S., which created a similar funding mechanism for municipal police officers. Special fire control districts became eligible to participate under ch. 175, F.S., in 1993.

Funding for these pension plans comes from four sources: net proceeds from an excise tax levied by a city upon property and casualty insurance companies (known as the “premium tax”), employee contributions, other revenue sources, and mandatory payments by the city of any extra amount needed to keep the plan solvent. To qualify for premium tax dollars, plans must meet requirements found in chs. 175 and 185, F.S. Responsibility for overseeing and monitoring these plans is assigned to the

Division of Retirement in the Department of Management Services, but day-to-day operational control rests with local boards of trustees. Most Florida firefighters and municipal law enforcement officers participate in these plans.

### City of Tampa Firefighters and Police Pension Fund

The Firefighters and Police Pension Fund for the City of Tampa originally was created through a special act in 1933 (ch. 16721, L.O.F.). This act was substantially rewritten by Ordinance No 4746-A, enacted September 30, 1969, which was approved, ratified, validated and confirmed by ch. 74-613, L.O.F., and further amended by Ordinance 89-314, enacted December 21, 1989, and approved, ratified, validated and confirmed by ch. 90-391, L.O.F. Subsequently, the act has been amended by the following laws:

- ch. 92-231, L.O.F.,
- ch. 94-463, L.O.F.,
- ch. 98-515, L.O.F.,
- ch. 2000-485, L.O.F.,
- Ordinance Number 2001-133, enacted July 3, 2001 (authorized by ch. 200-485, L.O.F.),
- ch. 2001-288, L.O.F.,
- ch. 2002-369, L.O.F.,
- Ordinance Number 2003-22, enacted January 28, 2003 (authorized by ch. 2000-485, L.O.F.),
- ch. 2004-427, L.O.F.,
- ch. 2007-304, L.O.F., and
- ch. 2011-240, L.O.F.

The provisions of these laws are incorporated into a pension contract and appropriate supplemental pension contracts, which are signed by each individual plan member.

The contract provides for pension plan administration, funding, membership and benefits. The general administration and responsibility for the proper operation of the pension system is vested in a board of trustees consisting of nine persons: three members of the city administration appointed by the mayor, three members of the fire department elected by active and retired firefighters, and three members of the police department elected by active and retired police officers.

### **Effect of Proposed Changes**

HB 577 amends various provisions contained in the uncodified special acts relating to the City of Tampa Firefighters and Police Officers Pension Fund. These changes have been negotiated between the City and Tampa Police Benevolent Association and the International Association of Firefighters, Local 754. The PBA membership ratified its contract on November 17, 2011, and ratification of the firefighters' contract is pending.

The changes to the pension contract contained in the bill will be made available in a supplemental pension contract. A current member is not required to sign this contract, but is not permitted to select some of the adjustments and reject others. A person who becomes a member of the fund on or after October 1, 2012, will be required, as a condition of membership, to sign a pension contract that includes the provisions of the bill, and make additional contributions as required to fund the changes.

The bill modifies the Tampa Firefighters and Police Officers Pension Contract as follows:

- Section 8 is amended to expand eligibility for death benefits to include full-time students up to the age of 23 who are children of firefighters or police officers killed in the line of duty. Currently, those benefits only are available to widows or widowers, or children under the age of 18.
- Section 8 also is amended to increase benefits to widow or widowers from 50 to 65 percent of a member's final year's earnings, and provide for a minimum benefit for the widow or widower of a

firefighter or police officer killed in the line of duty prior to October 1, 1969, of \$1,500 per month (base salary plus PRAA or post-retirement adjustment account, which is a cost of living adjustment). Surviving children's benefits are increased from 7.5 to 15 percent of the final year's earnings, subject to a limitation of 95 percent (increased from 65 percent) for a widow or widower and children combined. Upon death of the widow or widower, the child allowance is increased to 30 percent from 15 percent, not to exceed a total of 60 (increased from 50) percent of a member's final earnings. Payments to surviving spouses and children who are currently receiving benefits increase on the first payment day after October 1, 2012.

Presently, there are 21 windows/widowers and five minor children who will be affected by these increases in pension benefits. The benefits had not been changed since 1969, and current amounts were considered inadequate.

An Actuarial Impact Statement for the Pension was provided to the Plan Administrator, Jennifer Campbell, on September 8, 2011, and provides that the proposed change to Section 8 will increase the pension fund's actuarial accrued liability as of October 1, 2010, by \$1,278,228 and the fiscal 2012 contribution by \$179,562 (or .20 percent of projected payroll). Therefore, member contributions would increase by \$76,736 (or .09 percent of projected payroll) and the city contribution would increase by \$102,826 (or .11 percent of projected payroll).

- Section 27, entitled the "13th CHECK PROGRAM," additionally is amended to extend the eligibility criteria for the 13<sup>th</sup> check to a joint annuitant who is a lawfully wedded spouse. Current eligible recipients of the 13th check include retirees and eligible surviving spouses.

The 13<sup>th</sup> check benefit is a gain-sharing benefit. Since 2007, if the pension fund earns greater than 10 percent in a fiscal year, and demonstrates cumulative actuarial gains, then an "extra" or "13<sup>th</sup> check" may be paid. If the fund loses money, does not earn greater than 10 percent, or cannot demonstrate cumulative actuarial gains, then a 13<sup>th</sup> check is not issued for that fiscal year.

This benefit was added in 1998 when the pension offered only one form of benefit: payments to retirees, and a 65 percent eligible surviving spousal continuation. Chapter 99-01, L.O.F., provided additional optional forms of benefit payments that allow members to choose, for example, a joint annuitant with 100 percent continuation.

The act provides an effective date of October 1, 2012.

#### B. SECTION DIRECTORY:

Section 1: Authorizes the City of Tampa to enter into supplemental contracts with pension fund members.

Section 2: Amends the City of Tampa Firefighters and Police Officers Pension Plan.

Section 3: Provides for the act's changes to the pension to be provided in a supplemental contract.

Section 4: Provides for ratification of previous contract provisions.

Section 5: Provides a severability clause.

Section 6: Provides an effective date.

## II. NOTICE/REFERENDUM AND OTHER REQUIREMENTS

A. NOTICE PUBLISHED? Yes  No

IF YES, WHEN? October 5, 2011

WHERE? *The Tampa Tribune*, a daily newspaper of general circulation published in Hillsborough County, Florida.

B. REFERENDUM(S) REQUIRED? Yes  No

IF YES, WHEN?

C. LOCAL BILL CERTIFICATION FILED? Yes, attached  No

D. ECONOMIC IMPACT STATEMENT FILED? Yes, attached  No

### III. COMMENTS

A. CONSTITUTIONAL ISSUES:

None.

B. RULE-MAKING AUTHORITY:

None.

C. DRAFTING ISSUES OR OTHER COMMENTS:

#### **Drafting Issues**

None.

#### **Other Comments**

In a November 2011 study released by the Leroy Collins Institute, "Report Card: Florida Municipal Pension Plans," the Tampa Firefighters and Police Officers Pension Fund was awarded an "A," and determined to be funded at 99.43 percent, based on an actuarial date of 2008. According to the report, an "A" grade "indicates that a pension plan appears to be well funded and sustainable; however, sustainability can change rather quickly with a substantive drop in the value of the invested assets or an increase in pension benefits that increases the size of the liability."

The Actuarial Statement of Fiscal Soundness provided by the Department of Management Services, Division of Retirement,<sup>1</sup> provides:

- This bill complies with the requirements of Article X, Section 14 of the Constitution.
- This bill satisfies the actuarial cost impact provisions of Chapter 112, Part VII, Florida Statutes.
- No fiscal impact to the state. Cost of additional benefit would be paid by increases in the City of Tampa and member contributions. See actuarial impact statement prepared by the plan actuary.<sup>2</sup>

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<sup>1</sup> Statement prepared by Joseph Edmonds, Enrolled Actuary, 11-3518, dated November 15, 2011.

<sup>2</sup> Page 6 of this analysis.

**The City of Tampa Pension Fund for  
Firefighters and Police Officers  
Actuarial Impact Study**

	October 1, 2010		
	Before Changes	After Proposed Changes	Difference
<b>1. Number of Members</b>			
a. Active Members	1,268	1,268	
b. Deferred Vested Members	10	10	
c. Retired Members:			
i. Service	1,316	1,316	
ii. Disabled	336	336	
iii. Beneficiaries	279	279	
iv. Sub-total	1,931	1,931	
d. Total Members	3,209	3,209	
<b>2. Payroll</b>			
a. Total Covered Payroll	\$88,544,208	\$88,544,208	
b. Projected Payroll	\$92,085,976	\$92,085,976	
<b>3. Total Retired Member Benefits</b>	\$59,506,337	\$59,632,889	\$126,552
<b>4. Annual Cost</b>			
a. Entry Age Normal Accrued Liability	\$786,527,647	\$787,805,875	\$1,278,228
b. Actuarial Value of Assets	\$719,908,405	\$719,908,405	\$0
c. Unfunded Accrued Liability	\$66,619,242	\$67,897,470	\$1,278,228
d. Unfunded Liability Payment	\$9,855,189	\$9,990,782	\$135,593
e. Entry Age Normal Cost & Administrative Expense	\$19,888,845	\$19,922,490	\$33,645
f. Interest Adjustment	\$1,814,455	\$1,824,779	\$10,324
g. Total Annual Cost	\$31,558,489	\$31,738,051	\$179,562
<b>5. Minimum Required Contribution</b>			
a. Total Required Contribution	\$31,558,489	\$31,738,051	\$179,562
b. Estimated Member Contributions	\$10,813,290	\$10,890,026	\$76,736
c. Net Amount Payable by City	\$14,489,808	\$14,592,634	\$102,826
d. Estimated State Contributions	\$6,255,391	\$6,255,391	\$0
<b>6. Minimum Required Contribution (as a % of Projected Payroll)</b>			
a. Total Required Contribution	34.27%	34.47%	0.20%
b. Estimated Member Contributions	11.74%	11.83%	0.09%
c. Net Amount Payable by City	15.74%	15.85%	0.11%
d. Estimated State Contributions	6.79%	6.79%	0.00%

**IV. AMENDMENTS/ COMMITTEE SUBSTITUTE CHANGES**

None.