

GRAND JUNCTION CITY COUNCIL
ADDITIONAL WORKSHOP SUMMARY

June 5, 2006

The City Council of the City of Grand Junction, Colorado met on Monday, June 5, 2006 at 11:45 a.m. at Two Rivers Convention Center, 159 Main Street, to discuss workshop items. Those present were Councilmembers Teresa Coons, Bruce Hill, Gregg Palmer, Jim Spehar, Doug Thomason and Mayor Pro Tem Bonnie Beckstein. Absent was President of the Council Jim Doody. City Staff present were City Manager Kelly Arnold, City Attorney John Shaver, Assistant City Manager David Varley, Administrative Services and Finance Director Ron Lappi, Human Resources Manager Claudia Hazelhurst, Interim Fire Chief Jim Bright, Fire Department/New Hire Pension Board Chairman John Williams, Fire Department/New Hire Pension Board member John Hall, Fire Department/New Hire Pension Board member Jim Houlihan, Parks and Recreation Director Joe Stevens, Public Works and Utilities Director Mark Relph, Chief of Police Bill Gardner, Communications and Community Relations Coordinator Sam Rainguet, and Deputy City Clerk Debbie Kemp.

Summary and action on the following topic:

1. **REQUEST FROM THE NEW HIRE-FIRE RETIREMENT BOARD:** New Hire Fire Pension Board Chairman John Williams stated that the Fire Pension Board started to discuss developing a re-affiliation plan with the Fire and Police Pension Association (FPPA) in 2002. Legislation allowing reentry into FPPA was enacted in 2003. 98% of the members wanted more information regarding FPPA reentry. In July 2005, the Fire Pension Board met with FPPA. Mr. Williams said that 7 out of 10 market study cities are affiliated with FPPA. In October 2005 there was a proposal to change the contribution rate from the current 10.65% to 10% from the participants and 10% from the City. 92% to 93% percent of the members were in favor of the switch. Any new hires, upon their affiliation date, would have a contribution rate of 8%. In February 2006 the Pension Board met and voted to bring the proposal to City Council. Items that Mr. Williams highlighted are that this proposal could save the City 33% right off the top with any new hire. With 38 people eligible to retire in 2012, the savings could be \$52,000 a year for the new hires coming in. Going from 10.65% to 10% would result in \$340 per proficient firefighter per year with the incumbents. Once the incumbents leave, they are picked up again at the 8%. If a Resolution is adopted, the current new hire pension plan will terminate and no longer exist and the current participants would be enrolled under the umbrella of the Fire and Police Pension Board. The transition to change plans would be about a 6 month transition.

Police Chief Bill Gardner asked for clarification that the firefighters would voluntarily reduce their pension. Mr. Williams confirmed that they would.

Incumbents would go from 10.65% to 10% and any new hires would be at the level of 8%.

Administrative Services and Finance Director Ron Lappi stated that the buy-in requires a 20% contribution so it would be a .65% drop off.

Councilmember Palmer asked for clarification on the 8%. Mr. Lappi explained that the current members of FPPA are contributing 8% along with the City contributing 8% with the defined benefit plan. The opt-in provision would be at the 10% with the City contributing 10%. Currently the fire and police are at a 10.65% match.

Mr. Williams said that there is a possible potential for an unfunded liability. There are some steps in place to make sure a downturn does not occur. With the economic downturn that occurred in 2000, 2001, and 2002, FPPA is still sitting at 11% for annualized returns.

Councilmember Coons stated that she has watched other plans like PERA and United Airlines and questioned why the fire personnel would want to take the risk of a possible downturn. Mr. Williams stated that even with the downturn in 2000, 2001, and 2002, FPPA is doing well and maintaining their actuarial minimums.

Fire Department/New Hire Pension Board member Jim Houlihan clarified that plans like PERA and United Airlines are for profit where as FPPA is not. FPPA has ran very conservatively.

Councilmember Palmer questioned if the \$334,000 that City is contributing with the Old Hire Fire Plan was a PERA plan back then. Mr. Lappi explained that the old plans were individual plans with cities around the state. FPPA took over most of the Old Hire Fire Plans and said some of them are fully funded and some are not. Around 1980, new hire defined benefit plans were started and said the FPPA fights annually to get the funding for the Old Hire Fire Plans.

Councilmember Spehar asked if the 10.65% contribution would remain if there is no change. Mr. Lappi stated that it would remain.

Councilmember Palmer questioned the reason for opting out in the past. Human Resources Manager Claudia Hazelhurst stated that it was prompted by the financial field and design of the plan. There were fundamental problems with the plan. The State allowed incumbents to make an irrevocable decision to stay with the Old Hire Fire Plan or go with a new defined contribution plan.

Councilmember Coons asked if the FPPA plan that is being proposed has the same structural problems. Ms. Hazelhurst stated that the new plan will have portability. Mr. Lappi further explained that the average rate of return for the new defined benefit plan would be based on the assumption of an 8% return. Most of

the consultants in the country are warning against all defined benefit plans because capital markets are not expected to return anything like it did in the 90's.

Councilmember Palmer asked if the burden would be on the taxpayers if there is a shortage. Mr. Lappi explained that in the case of a shortage, usually employers have to make up the shortage or get the employees to contribute more to make up for the shortage.

Councilmember Palmer asked if there is potential for an unfunded liability to the current defined contribution plan. Mr. Lappi explained that defined contribution retirement plans have security and a larger amount of money goes into that plan and the members are matching it.

Jim Houlihan stated that police and fire don't have the option to work into their sixties; the jobs are just too demanding. Historically, age fifty to fifty-seven is generally the age of retirement. In 2000, 2001, and 2002 a lot of fire and cops could not retire because their pensions were decimated. The attraction with the new defined benefit plan is that there is always safety in the numbers.

Councilmember Spehar asked that if the plan were to shortfall from the 8%, would the City have to be responsible for it. Administrative Services Director Ron Lappi stated that the State could increase contributions from the employers. It's an exposure to an unfunded liability situation that the City currently doesn't have.

Councilmember Palmer asked if the new hires will have the same benefits at 8% as the others at 10.65% and 10%. Mr. Lappi stated that they would because they would be working longer. City Attorney John Shaver stated that the benefit is a function of their salary.

Fireman Jim Houlihan stated that the firefighters have a commitment to the defined benefit plan because they are willing to give up .65%.

Fire Department/New Hire Pension Board member John Hall stated that with the current City's defined contribution plan, he would not have enough money to retire when he needed to retire, where with the FPPA defined benefit plan, he would be able to retire.

Public Works and Utilities Director Mark Relph stated he felt that there needed to be more discussion as to how this affects the rest of the general employees. Mr. Houlihan stated that the general employees earn Social Security and the fire and police do not.

Councilmember Spehar asked for clarification on the Social Security. Mr. Hall explained that the general employees put into Social Security, Medicare and Medicaid, and the City matches the percentage. The fire and police only put into their pension fund. Mr. Lappi explained that Social Security isn't really viewed as a

benefit, it is viewed as a tax. The amount of benefit that the general employees get from Social Security isn't close enough to be defined as a benefit plan. The general employees are getting less of a benefit than the fire and police.

Councilmember Coons asked if there are any options for a defined benefit plan for the general employees. Mr. Lappi said the only way the general employees could have a defined benefit plan would be to form their own retirement association. Councilmember Beckstein noted that would not be an option because general employees can not opt out of Social Security now.

Police Chief Bill Gardner stated that he is pleased with the City's Defined Contribution Retirement Plan and said he would be concerned if his police staff had the perception that they needed more or were entitled to more.

Action summary: City Council asked that Staff prepare a public notice and bring it to a City Council meeting as a public hearing in July or August, 2006.

Adjourn

The meeting adjourned at 12:46 p.m.