



Florida Police Benevolent Association, Inc.
CAPITOL REPORT

For the Week Ending January 22, 2010



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Budget Woes Continue

The two weeks worth of Legislative Interim Committee Meetings have left us with plenty more questions than answers.

There is definitely a revenue shortfall in the billions, but no one is sure whether it's one, two, or three billion. For certain, this shortfall will be closed, in part at least, with more sacrifices from state employees. Not everyone in the Legislative Leadership has commented, at least publicly, on the subject, but for those who did, their intentions are crystal clear - state workers will bare the brunt of reductions to the state's budget.

The Senate's Budget Chief, Senator JD Alexander made statements about state worker layoffs, salary reductions and benefit reductions during last Wednesday's Senate Ways and Means Committee meeting.

During this week's Ways and Means meeting, Senate President Jeff Atwater made his intentions known, "We must make those same difficult decisions. We must separate the requireds from the desireds. The people of Florida do not have one more dime to send us. So let me be clear. When it comes to constructing a state budget to meet the critical needs of the people of this state, I am not starting in a hole. I am starting from scratch. And I will work at your side to construct such a budget. But we will not extract one more dollar from the small business owner of this state or from any Floridians' wallet to accomplish the task."

Now, we should note within the Senate Presidents comments that state workers are Floridians, so if the budget reduces salaries, or, worse, eliminates state jobs, then the budget will, in fact, extract one more dollar from a sector of Floridians' wallets. Judging from the context of his remarks, he is probably willing to make an exception to the rule for state employees.

The Legislature is ready to make reductions that not only close immediate budget holes, but also take away the state's long term obligations. State employee benefits like pensions and health insurance fall into this category.

The Senate Government Oversight & Accountability Committee spent both of its meetings discussing the deficits in the pension and health insurance plans. Sticking with the theme of more questions than answers, a senior staff member presented the committee members with a list of questions.

Florida's Pension Underfunded

The state pension system, although considered by nearly every expert in the business as a model for stability, suffered through the same recession-induced market dip that every other investment fund has experienced. The problem is that Florida's fund has run with a surplus for over a decade, so now when faced with a shortage, which will require an increase to the contribution rates; the Legislature must explore other funding options to pay down the unfunded actuarial liability. Our constitution requires the Legislature to maintain an actuarially sound investment fund, meaning any shortfalls have to be accounted for before the new contribution rates are set. This year's recommended rates are significantly higher for all classes meaning higher taxes are a possibility. Please refer back to the Senate President's comments for further illustration of why this is now a major issue of concern.

So what are some options for the Legislature in order to avoid raising the rates above a moderate level?

- 1) System is operated on the assumption that it will earn at least a 7.75 % return on investment. The Legislature could raise that assumption higher. However, this decision comes with a substantial risk – if the returns do not meet the higher assumption rate, we find ourselves back in the same boat.
- 2) The Legislature could require an employee contribution similar to how local Florida government pensions and private plans operate. Before 1975, all participating employees were required to contribute to the system so the idea is not a new one.
- 3) The Legislature could also change the funding structure of DROP to either a zero cost, or as the same class rate from which the enrollee retired. Currently, DROP is funded as a separate class from all other membership class rates.

More questions than answers.

Health Insurance Facing Deficit

Health insurance is quite possibly the most pressing matter at hand. Without any changes to funding, the system will be \$500 million in the hole by the 2011-2012 Fiscal Year. Basically, Florida's plan has more money going out to pay claims than money coming in. The reason is simple: the average plan participant is over the age of 45 and making claims. The plan is in need of a rebalancing of young and old employees. Younger employees pay more in than they take out, which covers the increase in claims by older employees. A premium increase, removing the premium exemption for select exempt employees, and possible reductions in the benefits are all options to solve the problem. Questions remain.

PBA Ready to Protect You

One answer for all of you is certain – the Florida PBA is going to work overtime to make sure you and your families are protected during this session of uncertainty. We spent all of the last two weeks talking with key members of the Legislature pressing the case for your job, your salaries, and your benefits. This year's session is one that will have an effect on every member. Truth is that all levels of government in Florida are revenue short. Our local government members spent all summer struggling to hang onto the basics in terms of positions, pay, and benefits. Now these same basics will be threatened by the state with many of the threats coming from local government attempting an end run away from the bargaining table to the Legislature. We have our work cut out for us. However, we have a strong and united political voice which gives us an advantage few other groups in this profession have at the state and local level.

Thanks for the time and, as always, stay safe.