Dear Fellow Memphians:

Last week, I wrote to you about issues we face in Memphis City Government. See The Good, The Bad, and The Ugly email at http://www.cityofmemphis.org/Government/CityCouncil/District5.aspx.

Please remember that City Government must, by state law, fully fund its annual contribution to its pension plan within five years. This means we must increase our current yearly contribution of $20 million to $70-80 million. The exact number will depend on which retirement system the Council approves and calculations from the actuaries, both of which will be finalized within the next two months.

1. 2 Years vs 5 Years

Mayor AC Wharton has proposed increasing the annual required contribution (ARC) to the pension system by $15 million each year for five years to fully fund the retirement system he has proposed.

Several Council members, including me, have argued that we should pay this debt in two years because it is cheaper to do so. Like a credit card debt or car loan, it is cheaper to pay it in full sooner than later.

Specifically, if we wait five years to fully fund the annual contribution:

a. the annual required contribution increases by up to $9 million per year;

b. the unfunded amount in the pension fund increases by 50%. For instance, if the fund is underfunded by $600 million, it would increase to $900 million in five years; and

c. the chance for a large property tax hike in two years increases dramatically. The Mayor and Council are up for re-election in October 2015, and everyone who wins will be in their last term under the new term limits charter amendment. And when faced with cutting the City's budget or increasing taxes, the fall back attitude at City Hall is to increase property taxes.

Stretching out this debt payment for five years is smoke and mirrors budgeting -- kicking the can down the road past the next election. In mathematical terms:

Five Years = Large Property Tax Increase in Two Years

2. Payment of the Annual Required Contribution (ARC)

How does City Government pay an extra $50-60 million per year? Mayor Wharton has proposed cutting the City's contribution to most retiree health insurance premiums.

Currently, retirees are allowed to stay on the City's health care insurance for life. City Government pays 70% of the premium, and the retiree pays 30%. On average per month, City Government pays $655 per retiree, and the retiree pays $281.

The Mayor has proposed that City Government stop paying for any of the premium for most retirees. Originally, the Mayor claimed this change would save $27 million, but last week this was reduced to $23 million.

There are three categories of retirees under the Mayor's proposal:

a. Over 65 Years Old and Not Medicare Eligible.

There is no dispute with these retirees. City Government would continue to pay 70% of their premiums.

b. Over 65 Years Old and Medicare Eligible.

These retirees would use Medicare as their primary plan and a supplemental plan accessed through City Government. The retiree would pay 100% of the premium for the supplemental plan, and the cost would be $230-$350 per month.

c. Under 65 Years Old.

These retirees are too young for Medicare. They would get their health insurance through their new employment, a spouse's employment, or the Affordable Care Act ("Obamacare"). The City's Human Resources Division estimates the cost of insurance on the Obamacare exchanges to be $240-670 per month, depending on the age of the retiree and the quality of the plan.

The last two categories of retirees could still purchase the City's health insurance, but paying 100% of their premium of over $936 would probably be cost prohibitive.

There are numerous arguments on both sides of this proposal.

Pro:

a. City Government budget problems, as a result of fully funding the pension cost, require major cuts in benefits.

b. Most taxpayers do not receive healthcare benefits from their former employers after retirement.

c. City retirees will still have access to health insurance through Medicare or the other options outlined above.

Con:

a. Retirees were promised City Government health insurance coverage in retirement when they were employed with City Government.

b. The cost for retirees will increase, in some cases substantially.

c. Other insurance may not be as good as City Government insurance and retirees may have to change doctors.

Please let me know your opinion on this issue.

3. Debt

As I explained to you last week, City Government's yearly debt payments –- the equivalent of your monthly mortgage payments –- have skyrocketed.

Unfortunately, the Mayor's proposed budget greatly increases our debt again. City Government has an Operating Budget and a Capital Improvement Budget (CIP). The Operating Budget pays for Police and Fire Services, Parks, other City Government services, pensions, health insurance, and debt service. Most of the income for the Operating Budget is from property and sales taxes. The Operating Budget is the equivalent of your household budget, including your mortgage or rent payment, with your salary being the income.

The CIP Budget is borrowed money to pay for Police and Fire vehicles and equipment, city buildings, and street repaving. For every $1 million in CIP debt, it costs the Operating Budget $80,000 per year for 25 years in debt service payments.

The policy of City Government has been to limit our Capital Improvement Project (CIP) Budget to 10% of our Operating Budget. With a $620 million Operating Budget, this means a $62 million CIP Budget.

The Mayor's proposed CIP Budget is $83 million. This translates into an additional $21 million in debt and $1,680,000 each year from the Operating Budget in debt service payments.

Interestingly, despite the talk about filling more potholes and paving more streets, the Mayor's proposed budget decreased the funds for those basic functions.

We need more discipline and less debt. Our Operating Budget problems would not be nearly as bad without this recent increase in debt payments. If not for the Mayor's 2010 refinancing, which has added $40 million to our budget this year, the ARC would be manageable. See Debt Refinance Explanation email at http://www.cityofmemphis.org/Government/CityCouncil/District5.aspx.

4. Bottom Line

Our Operating Budget has a deficit of $50-60 million due to the annual required contribution (ARC) to the pension system.

Even if the Council approves the retiree health insurance proposal, the ARC debt is still $27-37 million –- and it grows higher if not fully funded until the fifth year. And, of course, if the retiree health insurance proposal is not acceptable to the Council, the debt remains at $50—60 million per year.

We need to cut more from the Mayor's budget proposal. Your help is needed.

Please email the Mayor and Council and challenge us to pay for the additional pension costs with reductions in spending and within two years. Remember the math:

Five Years = Large Property Tax Increase in Two Years

Thank you for your input and help.

Jim

(Dated May 29, 2014)