

Dear Fellow Memphians:

In Memphis City Government, the news is like the old spaghetti western: the Good, the Bad and the Ugly.

The Good

1. Mayor AC Wharton started the 311 Service Center a year ago. Citizens can dial 311 for any non-emergency request of service from city government. It has improved our response to your requests and provides you better service. If you still are not satisfied with the City's response after calling 311, you may contact me.

2. Several weeks ago, the Memphis Fire Department was awarded the prestigious Congressional Fire Services Institute's "Career Fire-based EMS Service of the Year" award. The men and women who work at MFD deserve our recognition and appreciation for the high standard of care they provide to us.

The Bad

1. Underfunded Pension Plan.

The City's pension plan is between \$400 - \$600 million in debt, depending on which actuarial opinion is adopted. The City's yearly contribution to the pension plan has traditionally been \$20 million, but we must contribute approximately \$69 million each year (according to the City Council's actuary) to be "fully funded." The Firefighters Union's actuary calculates the annual required contribution to be \$60 million, while the Mayor's actuary believes it to be \$87 million.

The differences in the figures relate to assumptions or calculations on how long employees live on average and how much salaries are predicted to increase over the next 20-25 years.

2. Payment of the Annual Required Contribution (ARC).

How does city government pay an extra \$49 million as the Council's actuary proposes? The possible answers include cuts in its \$620 million budget, a 49 cent tax increase (a 14% increase over the \$3.40 current rate), or a combination of cuts in spending and a tax increase.

In my opinion, Memphis cannot afford another tax increase. Our combined property tax rate (city and county) is \$7.88 per \$100 in assessed value, while Nashville is \$4.51. Please review the email that I sent last year entitled "The Big Three Issues of Memphis" at

<http://www.cityofmemphis.org/Government/CityCouncil/District5.aspx>.

What can we cut? For years, many of us have fought unsuccessfully to cut the unnecessary patronage jobs, such as multiple deputy directors and public relations positions; needless city departments, such as the Music Commission; and frills awarded to government and elected officials, such as travel, food, and take home vehicles. We should try to cut these excesses again.

But if we could get a majority vote to cut all these expenses, it would not add up to \$49 million. Please remember that the claim that "there are 400 appointed positions that can easily be cut" is a myth. About 300 of these positions are every employee working for the library system and the City's legal department. The email entitled "The Big Three Issues of Memphis" cited above provides more details.

The Mayor has proposed the elimination of the City's contribution for health insurance for most retirees. This saves the city \$28 million. We will receive a full presentation on this proposal next week, and I will report back to you.

3. Retirement System.

Currently, most city retirees receive a traditional pension or benefits from a defined benefit plan. This guarantees a certain percentage of their salary after they retire. Most city employees do not receive any Social Security, unless they earned it through employment outside city government.

Mayor Wharton has proposed that all new and non-vested employees who have served less than 10 years in city government be moved to a defined contribution plan, similar to a 401K. The State of Tennessee has adopted a hybrid plan, which is part pension and part 401K, and has invited the City to join its plan.

The City Council's actuary will have a comparison of these alternatives, including their respective annual required contributions, next month. I will summarize for you and seek your input.

Please remember that, no matter what retirement system your City Council ultimately chooses, the City's pension plan remains underfunded. The annual required contributions may differ, but they will all be over \$60 million.

The Ugly

In 2010, Mayor Wharton refinanced the city's debt, which increased our interest rate and debt. Essentially, he borrowed money to pay operating expenses.

Several of your Council members, including myself, voted against the proposal. See the prior email entitled "Debt Refinance Explanation" for details at this link:

<http://www.cityofmemphis.org/Government/CityCouncil/District5.aspx>

This refinancing has increased the City's debt service -- payments on the debt similar to your mortgage payment -- by approximately \$40 million per year. Sadly, if the City was not required to pay \$40 million per year for this new debt, we could nearly pay for all the increased pension cost without much impact on the budget.

Thank you for your consideration of this information. I will soon share additional information with you and seek your input.

Jim Strickland