**NOTE 18 – EMPLOYEE DEFINED BENEFIT PENSION PLANS**

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Basis of accounting*. The pension plans are reported using the economic resources measurement focus and the accrual basis of accounting. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the plans. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Revenues are recognized in the period in which they are earned and expenses are recognized in the period incurred.

*Investments.* For financial reporting, the pension plans’ investments are reported at fair value. Corporate bonds, the shares of mutual funds, common and preferred stocks, and U.S. government securities are valued at the closing price reported on the active market on which the individual securities are traded. Alternative investments are valued at the net asset value (“NAV”) of share held by the plan at year end. For actuarial valuation, the difference between the actual investment rate of return and the expected investment return (8% assumption for fire & police, 7.75% for general employees) each year is recognized over 5 years. In order to be used as valuation assets, the smoothed value must be within the range of 80% to 120% of market value.

*Internal Loans.* The pension plans do not allow participant loans.

*Administrative Expenditures*. The City incurs most of the administrative costs of the retirement systems in the General Fund, however, administrative costs which are charged to the retirement systems are funded from system contributions and earnings; they are also expended annually in the actuarial valuations.

B. DESCRIPTION OF THE PLANS

The City maintains the City of St. Petersburg Employees’ Retirement System (“ERS”), the City of St. Petersburg Firefighters’ Retirement System (“Fire”) and the City of St. Petersburg Police Officers’ Retirement System (“Police”) as three separate single employer defined benefit retirement systems (collectively “the pension plans”).

Each of the three pension plans has a prior plan and supplemental plan component. The prior plan component covers employees prior to January 1, 1964, for ERS and prior to October 1,1970, for Police and Fire employees and does not include Social Security coverage.

**NOTE 18 – EMPLOYEE DEFINED BENEFIT PENSION PLANS - (Continued)**

The supplemental plan component of each pension plan provides for Social Security coverage after the previously noted dates. There are no active employees in the prior plans.

The pension plans cover full-time City employees and are maintained as Pension Trust Funds and reported on herein as part of the City’s reporting entity; therefore the pension plans do not issue stand-alone financial reports.

Management employees and employees not covered by a collective bargaining agreement (effective 10/22/09) have the option of a defined contribution plan under ICMA Retirement Corporation in lieu of membership in ERS.

*Plan Administration*. Each pension plan has a board of trustees which administer the systems. The composition of the board of trustees is as follows:

* The ERS board consists of the City’s Finance Director, the Mayor or his designee, two employee elected members who shall each serve a term of four years and one individual chosen by a majority of the previous four members for a four year term.
* The Fire board consists of two individuals who reside within City limits appointed by City Council for a period of four years, two employee elected members who each serve for a period of two years, and one individual chosen by a majority of the previous four members and appointed by City Council, acting in its ministerial capacity for a period of four years.
* The Police board consists of two individuals who reside within City limits appointed by City Council for a period of four years, two employee elected members who each serve for a period of four years, and one individual chosen by a majority of the previous four members and appointed by City Council, acting in its ministerial capacity for a period of four years.

City Ordinance is the establishing and amending authority for all the supplemental plans included in the three pension plans and the ERS prior plan. The Police and Fire prior plans establishing and amending authority is through Special State Act.

*Plan Membership.* The pension plans have the following classes and number of plan members as of the latest actuarial valuation 10/1/2016:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Number of Participants** |  | **Employees’ Retirement System** |  | **Firefighters’ Retirement System** |  | **Police Officers’ Retirement System** |
|  |  |  |  |  |  |  |
| Retirees and beneficiaries receiving benefits |  | 1,288 |  | 466 |  | 667 |
| Terminated plan participants entitled to but not yet receiving benefits |  | 212 |  | 6 |  | 51 |
| Active plan participants |  | 1,540 |  | 259 |  | 465 |
| Total |  | 3,040 |  | 731 |  | 1,183 |
|  |  |  |  |  |  |  |

**NOTE 18 – EMPLOYEE DEFINED BENEFIT PENSION PLANS - (Continued)**

*Benefits Provided.* The authority under which benefit terms are established or may be amended is at the City Ordinance level for the supplemental plans included in the three retirement systems and the prior plan in ERS. The authority under which benefit terms are established or may be amended for the prior plans included in the Police and Fire plans is through Special State Act. The Fire and Police plans receive funds from the State pursuant to Chapters 175 and 186, Florida Statutes, respectively.

All pension plans provide retirement, disability and death benefits. Benefit provisions under the three pension plans are shown individually below.

Employees’ Retirement System

Members age 60, or age 55 with 25 years of credited services, or age 50 with 30 years of credited service are eligible for normal retirement benefits. Normal retirement benefits for the members under the prior plan are average monthly salary (the highest five years during all years of credited service) times the sum of 2% times years of credited service prior to October 1, 1972 and 2.5% times years of credited service earned after October 1, 1972. Normal retirement benefits for the members under the supplemental plan are average monthly salary times a percentage derived as follows:

|  |  |  |
| --- | --- | --- |
| **Years of credited service during:** |  | **Percentage** |
|  |  |  |
| Before January 1, 1964 |  | 2.00% |
| January 1, 1964 to September 30, 1972 |  | 1.00% |
| October 1, 1972 to February 29, 1980 |  | 1.50% |
| March 1, 1980 to February 28, 1990 |  | 2.00% |
| March 1, 1990 to February 29, 2000 |  | 1.50% |
| March 1, 2000 and later |  | 2.00% |

Members that are totally and permanently service incurred disabled before normal retirement eligibility and approved by the pension board are entitled to disability benefits, reduced by amounts payable under worker’s compensation. Service incurred disability benefits under the prior plan are 65% of average monthly salary. Service incurred disability benefits under the supplemental plan are the member’s accrued pension benefit based on average monthly salary at the date of disability and credited service projected to age 65 (this benefit plus initial social security benefit cannot exceed covered salary at the date of disability, nor can it be less than 65% of average monthly salary). For non-service incurred disabilities, both the prior and supplemental plan provide benefits if the disability occurs after the member attains seven years of credited service. The non-service incurred disability benefit is greater of the member’s accrued pension benefit at the date of disability or 30% of average monthly salary. The Employee’s Retirement System provides death of disabled member benefits and pre-retirement death benefits under both the prior and supplemental plan.

**NOTE 18 – EMPLOYEE DEFINED BENEFIT PENSION PLANS - (Continued)**

A plan member who leaves City service may withdraw his or her accumulated contribution with interest of 3% plus, if employed on or before September 30, 1989, the specified employer contributions deposited on the member’s behalf, without interest. If accumulated contributions are not withdrawn from the plan, the vested accrued benefit is payable to the member beginning at age 60 for life.

Benefit terms provide that a cost of living adjustment factor shall be applied to the current benefit of all eligible retirees and beneficiaries each year. Such adjustments shall not be greater than 2% for any retiree under the prior plan or 1.5% under the supplemental plan.

Firefighters’ Retirement System

Members with 20 years of credited service under the prior plan and members at the earlier of 30 years of credited service, age 50 with 10 years of credit service, 20 years of credited service before reaching 50 (benefits commence at 50) or attaining age 55, under the supplemental plan are eligible for normal retirement benefits. Retirement benefits for the members under the prior plan are 50% of the highest pay step of the lowest rank held during the 3 previous years, plus 2% for each year of service in excess of 20 years (maximum amount of 60%). Retirement benefits for the members under the supplemental plan are 3% per year of credited service times average monthly salary (average monthly salary during highest 3 years of creditable service) effective January 1, 2004.

Members in the supplemental plan with 25 years of credited service are eligible for early retirement benefits. Early retirement benefits are normal retirement benefits reduced 2% for each year prior to age 50, or if earlier, the date 30 years of credited service would be attained.

Members that are totally and permanently service incurred disabled before normal retirement eligibility are entitled to disability benefits. Service incurred disability benefits under the prior plan are 60% of the highest pay step of rank at the time of disability. Service incurred disability benefits under the supplemental plan are the greater of the member’s accrued pension benefit at the date of disability or 60% of average monthly salary, reduced by certain amounts payable under workers' compensation. For non-service incurred disabilities under the prior plan the benefit is 2.5% of the prevailing wage rank held for each year of service, plus 7.5% for each child under 18; total not to exceed 50%. For non-service incurred disabilities under the supplemental plan the benefit is the greater of the member’s accrued pension benefit at the date of disability or 25% of average monthly salary plus 7.5% of earnings base for each unmarried child under 18. The Firefighters’ Retirement System also provides death of disabled member benefits and pre-retirement death benefits under both the prior and supplemental plan.

A member who leaves City service with less than ten years of credited service may withdraw his or her accumulated contributions without interest. If accumulated contributions are not withdrawn from the plan, the vested accrued benefit is payable to the member beginning at age 50.

**NOTE 18 – EMPLOYEE DEFINED BENEFIT PENSION PLANS - (Continued)**

In the supplemental plan, benefit terms provide that a cost of living adjustment factor shall be applied to members available only upon recommendation of the Mayor and approval of the City Council. In addition, members retired on or after October 1, 2008 who are at least 60 receive a 2% annual adjustment subject to availability of State premium tax reserve funding. In the prior plan, cost of living adjustments are in accordance with changes in compensation of rank held.

Police Officers’ Retirement System

Members with 20 years of credited service under the prior plan and members at the earlier of 25 years of credited service or age 55 under the supplemental plan are eligible for normal retirement benefits. Retirement benefits for the members under the prior plan are 50% of the highest pay step of the lowest rank held during the 3 previous years, plus 2% for each year of service in excess of 20 years (maximum amount of 60%). Retirement benefits for the members under the supplemental plan are 3% per year of credited service times earnings base (average monthly salary during last 3 years of creditable service) effective January 1, 2004.

Members in the supplemental plan age 50 with 10 years of credited service are eligible for early retirement benefits. Early retirement benefits are normal retirement benefits reduced 3% for each year prior to age 55.

Members that are totally and permanently service incurred disabled before normal retirement eligibility are entitled to disability benefits, reduced by amounts payable under workers' compensation. Service incurred disability benefits under the prior plan are 60% of the highest pay step of rank at the time of disability. Service incurred disability benefits under the supplemental plan are the greater of the member’s accrued pension benefit at the date of disability or 60% of earnings base. For non-service incurred disabilities under the prior plan the benefit is 2.5% of the prevailing wage rank held for each year of service, plus 7.5% for each child under 18; total not to exceed 50%. For non-service incurred disabilities under the supplemental plan the benefit is the greater of the member’s accrued pension benefit at the date of disability or 25% of earnings base, plus 7.5% of earnings base for each unmarried child under 18. The Police Officers’ Retirement System provides death of disabled member benefits and pre-retirement death benefits under both the prior and supplemental plan.

A member who leaves City service with less than ten years of credited service may withdraw his or her accumulated contributions without interest. If accumulated contributions are not withdrawn from the plan, the vested accrued benefit is payable to the member beginning at age 55 for life. If the present value of the vested accrued benefit is less than $5,000, the benefit will be distributed in a lump sum.

**NOTE 18 – EMPLOYEE DEFINED BENEFIT PENSION PLANS - (Continued)**

In the supplemental plan, benefit terms provide that a cost of living adjustment factor shall be applied to each pension where the member whose name the pension account was originally established has or would have attained aged 60 prior to October 1 each year. The cost of living adjustment will equal the annual percentage increase in the Consumer Price Index (CPI) for the preceding fiscal year (October 1 to September 30) or 2%, whichever is less. In the prior plan, cost of living adjustments are in accordance with changes in compensation of rank held.

*Contributions*. The State of Florida has established guidelines for state and local pension plan funding that requires submission to and approval of the local government’s actuarial reports by a State Bureau, at least every third year. The City’s pension plans, by policy, (1) require annual actuarial reports as of October 1 of each year, (2) receive employer contributions based on the actuarially determined requirement which includes funding from the State of Florida as required by Florida Statute and (3) use the same assumptions (see funding policy section) for determining the employer contribution required. The contribution revenues received from the State of Florida "on behalf" of the City's employees totaled $1,735,698 and $1,969,105 for the Firefighter’s Retirement System and Police Officers’ Retirement System, respectively. The "on behalf" contributions were recognized as state insurance fund contribution revenues in the current year. The total City payroll for the fiscal year ended September 30, 2017, is approximately $191.7 million. The Firefighter’s Retirement System and Police Officers’ Retirement System require employee contributions based on a percentage of covered payroll of 7% and 7% for the supplemental plans, respectively. Participants in the Employees’ Retirement System supplemental plan contribute 2% of the employees covered payroll. Employee contribution rates are established and amended by the plans respective board.

For the year ended September 30, 2017, the City's average contribution rates as a percentage of covered payroll are as follows:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | Covered Payroll |  | Contribution |  | Average Contribution Rate |
| Employees’ Retirement System | $ | 77,392,386 | $ | 10,310,841 |  | 13% |
| Firefighters’ Retirement System |  | 16,264,742 |  | 1,378,771 |  | 8% |
| Police Officers’ Retirement System |  | 35,120,540 |  | 7,562,663 |  | 22% |

C. INVESTMENTS

*Investment Policies.*

The pension plans investment policies are pursuant to Florida Statute 112.661.

Employees’ Retirement System

The ERS policy in regards to the allocation of invested assets is established and amended by their respective Board of Trustees. The general investment objective is to obtain a reasonable total rate of return – defined as income plus realized and unrealized capital gains and losses – commensurate with the Prudent Man Rule of the Employee Retirement Income Security Act of **NOTE 18 – EMPLOYEE DEFINED BENEFIT PENSION PLANS - (Continued)**

1974 (ERISA) and achieve growth in purchasing power. Specifically, the investment objective is to earn a return over time exceeding the assumed actuarial rate of 7.75% and should earn a return greater than inflation, as measured by the Consumer Price Index, by 3.0% per year. The investment managers may exercise full investment discretion within the prescribed investment policy guidelines. Significant provisions of the investment policy are as follows:

* Interest Rate Risk: Does not place limits on investment maturities.
* Credit Risk: Limits investments to the top four rating of a nationally recognized rating agency.
* Concentration Credit Risk: Limits investment in any single issuer up to 10% of the total portfolio.
* Foreign Currency Risk: Permits investments of up to 10% of the total portfolio in foreign currency denominated investments.

The following was the Board’s adopted asset allocation policy as of September 30, 2017 by investment manager type:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **% Range** |  | **% Target** |
| **Traditional Asset Classes** |  |  |  |
| **Equity Managers** |  |  |  |
| Large capitalization value manager | 17.50 - 12.50% |  | 15.00% |
| Large capitalization growth manager | 17.50 - 12.50% |  | 15.00% |
| Small/mid capitalization value manager | 7.50 – 2.50% |  | 5.00% |
| Small/mid capitalization growth manager | 7.50 – 2.50% |  | 5.00% |
| International value manager | 10.00 – 5.00% |  | 7.50% |
| International growth manager | 10.00 – 5.00% |  | 7.50% |
| Public real estate (REIT) | 0.00% |  | 0.00% |
| **Total Equity** | **70.00 – 40.00%** |  | **55.00%** |
| **Fixed Income Managers** | **30.00 – 20.00%** |  | **25.00%** |
| **Total Traditional Asset Classes** |  |  | **80.00%** |
| **Alternative Asset Classes** |  |  |  |
| Private real estate | 15.00 – 5.00% |  | 10.00% |
| Hedge fund of funds | 10.00 – 0.00% |  | 5.00% |
| Master Limited Partnerships | 10.00 – 0.00% |  | 5.00% |
| Managed futures | 0.00% |  | 0.00% |
| Private equity | 0.00% |  | 0.00% |
| **Total Alternative Asset Classes** |  |  | **20.00%** |
|  |  |  |  |
| **Total Traditional & Alternative** |  |  | **100%** |
|  |  |  |  |

The ERS Board of Trustees updated the investment policy asset allocation in August 2017 to update the asset allocation within the traditional asset classes. The asset allocation to large cap value manager and large cap growth manager decreased from 17.5% to 15% and the international value manager and international growth manager of funds allocation increased from 5% to 7.5%.

**NOTE 18 – EMPLOYEE DEFINED BENEFIT PENSION PLANS - (Continued)**

Firefighters’ Retirement System

The Fire policy in regards to the allocation of invested assets is established and amended by their respective Board of Trustees. The general investment objective is to preserve the purchasing power of the plan’s assets and earn a reasonable real rate of return (after inflation) over the long term while minimizing the short term volatility of results. The specific objectives include an average rate of return greater than 8% over the longer term (3 to 5 years), to earn an average annual rate of return which exceeds the Consumer Price Index by 4.5% over the longer term (3 to 5 years), to achieve a rate of return over the long term (3 to 5 years) which exceeds the return of a Target Index (see below) and to rank in the top 50% of total rate of return when compared to a representative universe of other similarly managed portfolios. The investment managers may exercise full investment discretion within the prescribed investment policy guidelines. Significant provisions of the investment policy are as follows:

* Interest Rate Risk: Does not place limits on investment maturities.
* Credit Risk: Limits investments to the top four rating of a nationally recognized rating agency.
* Concentration Credit Risk: No more than 5% (at cost) of an investment manager’s portfolio may be invested in a single corporate issuer. Investments in the shares of companies that have been publicly traded for less than one year are limited to no more than 15% of an investment manager’s total equity portfolio.
* Foreign Currency Risk: Permits investments of up to 25% of the total portfolio in foreign currency denominated investments.
* Adherence with Section 175, Florida Statutes and Section 112.661, Florida Statutes
* Alternative investments shall be made through partnership in diversified commingled funds, mutual funds or limited partnership vehicles.

The following was the Board’s adopted asset allocation policy as of September 30, 2017 by investment manager type:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Target Allocation (at market)** |  | **Permissible Range**  **(at market)** |  | **Representative Benchmark** |
| **Traditional Asset Classes** |  |  |  |  |  |
| **Equity Managers** |  |  |  |  |  |
| Domestic Equity | 70.00 - 30.00% |  | 43.00% |  | Russell 3000 / 1000 / 2000 |
| Foreign Equity | 25.00 - 5.00% |  | 10.00% |  | EAFE |
| **Total Equity** |  |  | **53.00%** |  |  |
| **Fixed Income & Equivalents** |  |  |  |  |  |
| Fixed Income | 70.00 - 25.00% |  | 32.00% |  | Barclays Capital Agg / GC |
| Cash Equivalents | 10.00 - 0.00% |  | 0.00% |  | Treasury Bills |
| **Total Fixed Income & Equivalents** |  |  | **32.00%** |  |  |
| **Total Traditional Asset Classes** |  |  | **85.00%** |  |  |
|  |  |  |  |  |  |
| **Alternative Asset Classes** | 20.00 - 0.00% |  | **15.00%** |  | CPI + 4.50% |
|  |  |  |  |  |  |
| **Total Traditional & Alternative** |  |  | **100.00%** |  |  |

**NOTE 18 – EMPLOYEE DEFINED BENEFIT PENSION PLANS - (Continued)**

Police Officers’ Retirement System

The Police policy in regards to the allocation of invested assets is established and amended by their respective Board of Trustees. The general investment objective is to preserve the purchasing power of the plan’s assets and earn a reasonable rate of return (after inflation) over the long term while minimizing the short-term volatility results. Specifically, the investment objective is to earn an average annual rate of return over the long term which exceeds the Consumer Price Index by 4.5% and to earn a total rate of return over the longer term which exceeds the return of a Target Index (see Target Index below). The investment managers may exercise full investment discretion within the prescribed investment policy guidelines. Significant provisions of the investment policy are as follows:

* Interest Rate Risk: Does not place limits on investment maturities.
* Credit Risk: Limits investments to the top four rating of a nationally recognized rating agency.
* Concentration Credit Risk: Limits investment in any single issuer up to 5% of the total portfolio. Investments in the shares of companies that have been publicly traded for less than one year are limited to no more than 15% of an investment manager’s total equity portfolio.
* Foreign Currency Risk: Permits investments of up to 10% of the total portfolio in foreign currency denominated investments.
* Adherence with Section 185, Florida Statutes.

The following was the Board’s adopted asset allocation policy as of September 30, 2017 by investment manager type:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **% Range** |  | **% Target** |  | **Target Index** |
| **Traditional Asset Classes** |  |  |  |  |  |
| **Equity Managers** |  |  |  |  |  |
| Large capitalization value manager | 24.00 – 19.00% |  | 21.50% |  | Russell 1000 Value |
| Large capitalization growth manager | 24.00 – 19.00% |  | 21.50% |  | Russell 1000 Growth |
| Small/mid capitalization value manager | 7.50 – 2.50% |  | 5.00% |  | Russell 2500 Value |
| Mid capitalization growth manager | 7.50 – 2.50% |  | 5.00% |  | Russell Mid Growth |
| International value manager | 8.50 – 3.50% |  | 6.00% |  | MSCI EAFE (Net) |
| International growth manager | 8.50 – 3.50% |  | 6.00% |  | MSCI AC World ex USA |
| **Total Equity** |  |  | **65.00%** |  |  |
| **Fixed Income Managers** | **25.00–15.00%** |  | **20.00%** |  | BC Int. Gov’t/Credit |
| **Total Traditional Asset Classes** |  |  | **85.00%** |  |  |
| **Alternative Asset Classes** |  |  |  |  |  |
| Private real estate | 10.00 – 2.50% |  | 7.00% |  | Russell NCREIF |
| Master Limited Partnerships | 10.00 – 0.00% |  | 5.00% |  | Alerian MLP |
| Hedge fund of funds | 10.00 – 0.00% |  | 3.00% |  | HFRI FOF Cons. |
| **Total Alternative Asset Classes** |  |  | **15.00%** |  |  |
|  |  |  |  |  |  |
| **Total Traditional & Alternative** |  |  | **100.00%** |  |  |
|  |  |  |  |  |  |

**NOTE 18 – EMPLOYEE DEFINED BENEFIT PENSION PLANS - (Continued)**

*Investment Concentration*. The pension plans on an individual plan basis did not hold investments (other than those issued or explicitly guaranteed by the U.S. government) in any one organization that represents 5 percent or more of the pension plan’s fiduciary net position.

*Money-Weighted Rate of Return.* For the year ended September 30, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 11.80%, 12.50% and 12.18% for the Employees’ Retirement System, Firefighters’ Retirement System and Police Officers’ Retirement System, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

D. RESERVES

The City of St. Petersburg Police Officers’ Retirement System and the City of St. Petersburg Firefighters’ Retirement System receive annual contributions from the State of Florida under Florida Statutes Chapter 185 and 175, respectively. Accumulated State Premium Tax contributions in excess of the $1,677,009 annual amount allowed to offset City contributions are held in reserve for future benefit improvements in Police Officers' Retirement System. Accumulated State Premium Tax contributions in excess of the $1,210,916 annual amount allowed to offset City contributions are held in reserve for cost of living adjustments for supplemental plan members who retire after September 30, 2008 in Firefighters' Retirement System. As of September 30, 2017 the accumulated balance in the Police Officers’ Retirement System and the Firefighters’ Retirement System was $636,947 and $7,194,831, respectively.

E. DEFERRED RETIREMENT OPTION PLANS

When an employee in a defined benefit plan reaches retirement eligibility, all three plans offer a deferred retirement option plan (DROP). When an employee elects to enter a DROP, they continue working, but all pension contributions stop and the pension benefit earned begins accruing for that individual in a separate account. At termination of employment, the employee has an option of a lump sum payment or roll over into a tax deferred account.

The Employees’ Retirement System, Police Officers’ Retirement System and Firefighters’ Retirement System DROP accounts which started in 2000, 2004, and 2007 respectively, are kept by a third party custodian International City Management Association Retirement Corporation, and are not included as pension fund liabilities.

At September 30, 2017, participants and amounts deferred in the DROP plans are as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | Participants |  | Custodial Assets |
| Employees’ Retirement System | 91 |  | $ 10,338,319 |
| Firefighters’ Retirement System | 53 |  | $ 24,554,622 |
| Police Officers’ Retirement System | 82 |  | $27,247,721 |

**NOTE 18 – EMPLOYEE DEFINED BENEFIT PENSION PLANS - (Continued)**

F. PENSION PLAN REPORTING: NET PENSION (ASSET) LIABILITY

GASB Statement No. 67, *Financial Reporting for Pension Plans - an Amendment of GASB Statement No 25* requires pension plans to include certain disclosures about the plan as well as the net pension liability in the notes to the financial statements. As the retirement systems do not issue separate financial statements, the required disclosures for pension plan reporting are found in this section of the notes to the financial statements and in the required supplementary information section.

The net pension (asset) liability is calculated as the total pension liability less the pension plans net fiduciary position. The total pension (asset) liability is the present value of pension benefits attributable to past service of the pension plans and the net fiduciary position is the resources currently available in the pension plans trusts to pay benefits.

*Net Pension Liability Components*

The components of the net pension liability by retirement system at September 30, 2017 were as follows:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | **Employees’ Retirement System** |  | **Firefighters’ Retirement System** |  | **Police Officers’ Retirement System** |
|  |  |  |  |  |  |  |
| Total pension liability | $ | 449,991,694 | $ | 231,583,586 | $ | 440,062,733 |
| Plan fiduciary net position |  | (421,268,846) |  | (260,830,086) |  | (407,458,070) |
| Retirement Plan’s net pension liability | $ | 28,722,848 | $ | (29,246,500) | $ | 32,604,663 |
|  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
| Plan fiduciary net position as a percentage of the total pension liability |  | 93.62% |  | 112.63% |  | 92.59% |

*Actuarial Assumptions*

The total pension liability was determined based on a roll-forward of the entry-age normal liabilities from the October 1, 2016 actuarial valuation. The pension plans use the Entry Age Normal Actuarial Cost Method with a level percent closed amortization method. Under the Entry Age Normal Cost Method, an annual Normal Cost is determined for each covered active member which is the contribution required to provide all the projected pension benefits assuming this contribution is payable over a period ending on the date of retirement and expressed as a level percentage of compensation. Entry Age is the age nearest the employees’ birthday on the first of October following employment. The asset valuation method under all three pension plans is a four year phase in of investment gains and losses.

**NOTE 18 – EMPLOYEE DEFINED BENEFIT PENSION PLANS - (Continued)**

The total pension liability for each pension plan as of September 30, 2017 was determined based on a roll-forward of entry age normal liabilities from the October 1, 2016 actuarial valuation, using the following actuarial assumptions, applied to all periods included in the measurement:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Employees’ Retirement System** |  | **Firefighters’ Retirement System** |  | **Police Officers’ Retirement System** |
| Investment rate of return (net investment expenses) | 7.75% |  | 8.00% |  | 8.00% |
| Inflation | 3.00% |  | 3.00% |  | 3.00% |
| Salary increases | 5.00% to 8.50% |  | 1.00% to 5.50% for FY 2016; and 5.00% to 9.50% thereafter |  | 4.50% to 8.00% |
| Aggregate compensation increase annually | 0.20% |  | 0.00% |  | 1.60% |
|  |  |  |  |  |  |
| Cost of living adjustments (prior plan) | 1.50% and 2.0% thereafter |  | 4.00% |  | 5.717% for Officers, 5.588% for Sergeants, 4.679% for Lieutenants & 3.00% for Management; and 4.00% thereafter |
|  |  |  |  |  |  |
| Cost of living adjustments (supplemental plan) | 1.50% |  | 0.00% |  | 1.70% for FY 16 and 2.00% thereafter |
|  |  |  |  |  |  |
| Mortality Rate Table | Female Non-Disabled: RP2000 Generational, 100% Annuitant White Collar, Scale BB; Male Non-Disabled: RP2000 Generational, 50% Annuitant White Collar/ 50% Annuitant Blue Collar, Scale BB |  | Female Non-Disabled: RP2000 Generational, 100% Annuitant White Collar, Scale BB; Male Non-Disabled: RP2000 Generational, 10% Annuitant White Collar/ 90% Annuitant Blue Collar, Scale BB |  | Female Non-Disabled: RP2000 Generational, 100% Annuitant White Collar, Scale BB; Male Non-Disabled: RP2000 Generational, 10% Annuitant White Collar/ 90% Annuitant Blue Collar, Scale BB |

*Actuarial changes from the prior year:*

Employee’s Retirement System: The mortality rate table was modified in fiscal year 2017 to reflect Florida Statues 112.63 and 112.664, which require local government pension plans to use the mortality tables used in either of the two most recently published actuarial valuation reports of the Florida Retirement System, including the projection scale for mortality improvement, and appropriate risk and collar adjustments based on plan demographics. The City’s mortality table was changed from Fully Generational RP-2000 Combined Healthy Table with life expectancy improvements projected using Scale AA for females and males to RP2000 Generational for both females and males and 100% Annuitant White Collar, Scale BB and 50% Annuitant White Collar/50% Annuitant Blue Collar, Scale BB for females and males respectively.

Firefighters’ Retirement System: The mortality rate table was modified in fiscal year 2017 to reflect Florida Statues 112.63 and 112.664, which require local government pension plans to use the mortality tables used in either of the two most recently published actuarial valuation reports of the Florida Retirement System, including the projection scale for mortality improvement, and **NOTE 18 – EMPLOYEE DEFINED BENEFIT PENSION PLANS - (Continued)**

appropriate risk and collar adjustments based on plan demographics. The City’s mortality table was changed from Fully Generational RP-2000 Combined Healthy Table with Blue Collar Adjustments for females and males to RP2000 Generational for both females and males and 100% Annuitant White Collar, Scale BB and 10% Annuitant White Collar/ 90% Annuitant Blue Collar, Scale BB for females and males respectively.

Police Officers’ Retirement System: The mortality rate table was modified in fiscal year 2017 to reflect Florida Statues 112.63 and 112.664, which require local government pension plans to use the mortality tables used in either of the two most recently published actuarial valuation reports of the Florida Retirement System, including the projection scale for mortality improvement, and appropriate risk and collar adjustments based on plan demographics. The City’s mortality table was changed from Fully Generational RP-2000 Combined Healthy Table with Blue Collar Adjustments for females and males to RP2000 Generational for both females and males and 100% Annuitant White Collar, Scale BB and 10% Annuitant White Collar/ 90% Annuitant Blue Collar, Scale BB for females and males respectively. Aggregate compensation is assumed to increase 1.60% per year (up from 0.5% in previous years), as limited by the ten-year average historical growth in payroll.

*Long-term expected rate of return (Pension Plan Reporting)*

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of September 30, 2014 (see the discussion of the pension plan’s investment policy) are summarized in the following table:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Long-Term Expected Real Rate of Return** | | | | | |
| **Asset Class** |  | **Employees’ Retirement System** |  | **Firefighters’ Retirement System** |  | **Police Officers’ Retirement System** |
| Cash |  | N/A |  | 3.81% |  | 3.81% |
| US Large Cap |  | 11.23% |  | 11.23% |  | 11.23% |
| US Mid Cap |  | 13.88% |  | 13.88% |  | 13.88% |
| US Small Cap |  | 13.99% |  | 13.99% |  | 13.99% |
| Global Ex US Equity |  | 11.58% |  | N/A |  | 11.58% |
| MSCI EAFE |  | 11.13% |  | 11.13% |  | 11.13% |
| Aggregate Bonds |  | N/A |  | 5.27% |  | N/A |
| US Government Credit |  | 5.34% |  | N/A |  | 5.34% |
| REIT |  | N/A |  | 8.05% |  | N/A |
| Hedge Funds |  | 7.93% |  | 7.93% |  | 7.93% |

**NOTE 18 – EMPLOYEE DEFINED BENEFIT PENSION PLANS - (Continued)**

*Discount rate*

The discount rate used to measure the total pension liability was 7.75% for ERS and 8.00% for Fire and Police. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the net pension liability to changes in the discount rate (Pension Plan Reporting)*

The following presents the net pension liability of the pension plans, calculated using the current discount rate, as well as what the pension plan’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage point higher than the current rate:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **1% Decrease** |  |  | **Current Discount Rate** |  |  | **1% Increase** |
|  |  |  |  |  |  |  |  |  |
| **Employees' Retirement**  **System net pension liability (asset)** | $ | 77,252,776 |  | $ | 28,722,848 |  | $ | (15,082,837) |
|  |  | *6.75%* |  |  | *7.75%* |  |  | *8.75%* |
|  |  |  |  |  |  |  |  |  |
| **Firefighters' Retirement**  **System net pension liability (asset)** | $ | (7,333,581) |  | $ | (29,246,500) |  | $ | (49,304,194) |
|  |  | *7.00%* |  |  | *8.00%* |  |  | *9.00%* |
|  |  |  |  |  |  |  |  |  |
| **Police Officers' Retirement**  **System net pension liability (asset)** | $ | 82,119,825 |  | $ | 32,604,663 |  | $ | (11,901,192) |
|  |  | *7.00%* |  |  | *8.00%* |  |  | *9.00%* |

G. EMPLOYER (CITY) REPORTING: NET PENSION LIABILITY

The net pension liability disclosed below is the liability to the employer, the City of St. Petersburg, of the pension plans in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27*. The net pension liability is calculated as the total pension liability less the pension plans' net fiduciary position. The total pension liability is the present value of pension benefits attributable to past service of the pension plans and the net fiduciary position is the resources currently available in the pension plans' trusts to pay benefits.

**NOTE 18 – EMPLOYEE DEFINED BENEFIT PENSION PLANS - (Continued)**

*Net Pension (Asser) Liability Components (Employer Reporting)*

The net pension (asset) liability of the retirement systems' recorded in the City's financial statements at September 30, 2017 is based on a measurement date of September 30, 2016 and the total pension liability as of September 30, 2016 was determined based on a roll-forward of the entry-age normal liabilities from the October 1, 2015 actuarial valuation (using below detail actuarial assumptions) applied to all periods included in the measurement. The net pension liability by retirement system recorded to the City's financial statements as of September 30, 2017 is as follows.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Employees' Retirement System** |  |  | **Firefighters' Retirement System** |  |  | **Police Officers' Retirement System** |
|  |  |  |  |  |  |  |  |  |
| Total pension liability | $ | 437,564,715 |  | $ | 222,725,139 |  | $ | 418,846,742 |
| Plan fiduciary net position |  | (387,352,418) |  |  | (245,210,495) |  |  | (378,355,807) |
| Retirement Plan's net pension liability (asset) | $ | 50,212,297 |  | $ | (22,485,356) |  | $ | 40,490,935 |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
| Plan fiduciary net position as a percentage of the total pension liability |  | 88.52% |  |  | 110.10% |  |  | 90.33% |

*Actuarial Assumptions (Employer Reporting)*

The pension plans use the Entry Age Normal Actuarial Cost Method with a level percent closed amortization method. Under the Entry Age Normal Cost Method, an annual Normal Cost is determined for each covered active member, which is the contribution required to provide all the projected pension benefits assuming this contribution is payable over a period ending on the date of retirement and expressed as a level percentage of compensation. Entry Age is the age nearest the employees’ birthday on the first of October following employment. The asset valuation method under all three pension plans is a four year phase in of investment gains and losses.

**NOTE 18 – EMPLOYEE DEFINED BENEFIT PENSION PLANS - (Continued)**

The total pension liability for each pension plan as of September 30, 2016 was determined based on a roll-forward of entry age normal liabilities from the October 1, 2015 actuarial valuation, using the following actuarial assumptions, applied to all periods included in the measurement:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Employees’ Retirement System** |  | **Firefighters’ Retirement System** |  | **Police Officers’ Retirement System** |
| Investment rate of return (net investment expenses) | 7.75% |  | 8.00% |  | 8.00% |
| Inflation | 3.00% |  | 3.00% |  | 3.00% |
| Salary increases | 5.00% to 8.50% |  | 5.00% to 9.50% |  | 4.50% to 8.00% |
| Aggregate compensation increase annually | 0.20% |  | 0.00% |  | 0.05% |
| Cost of living adjustments (prior plan) | 2.00% |  | 3.00% for former District Chiefs, Chiefs and Captains and 0.00% for remainder of population in FY16 and 4.00% thereafter |  | 5.717% for Officers, 5.588% for Sergeants, 4.679% for Lieutenants and 3.00% for management; and 4.00% thereafter |
| Cost of living adjustments (supplemental plan) | 1.50% |  | 0.00% |  | 1.70% for FY16 and 2.00% there after |
| Mortality Rate Table | Fully generational RP-2000 Combined healthy table with life expectancy improvements projected using scale AA |  | Fully generational RP-2000 Combined healthy table with Blue collar adjustment |  | Fully generational RP-2000 Healthy Table with life expectancy improvements projected using scale AA and with Blue collar Adjustments |

The long-term expected rate of return on pension plan investments and the discount rate used to measure the total pension liability is the same as those used for the pension plan reporting discussed in detail in Note 18 (F).

**NOTE 18 – EMPLOYEE DEFINED BENEFIT PENSION PLANS - (Continued)**

*Changes in Net Pension Liability (Employer Reporting)*

The detailed changes in the net pension liability for each of the three retirement systems in fiscal 2017 is as follows, based on actuarial date one year prior:

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Employees' Retirement System** | | | | | | | | | |
|  |  |  | **Total Pension** |  |  | **Plan Fiduciary** |  |  | **Net Pension** | |
| **Change in the Net Pension Liability** |  |  | **Liability** |  |  | **Net Position** |  |  | **Asset (Liability)** | |
|  |  |  |  |  |  |  |  |  |  | |
| Balances at September 30, 2016 |  | $ | 410,671,607 |  | $ | 369,690,519 |  | $ | 40,981,088 | |
|  |  |  |  |  |  |  |  |  |  | |
| Changes for the year: |  |  |  |  |  |  |  |  |  | |
| Service Cost |  | $ | 8,241,100 |  | $ | - |  | $ | 8,241,100 | |
| Interest |  |  | 31,647,473 |  |  | - |  |  | 31,647,473 | |
| Differences between expected and actual experience |  |  | 8,120,936 |  |  | - |  |  | 8,120,936 | |
| Changes in assumptions |  |  | - |  |  | - |  |  | - | |
| Contributions - City |  |  | - |  |  | 11,198,451 |  |  | (11,198,451) | |
| Contributions - Member |  |  | - |  |  | 1,465,224 |  |  | (1,465,224) | |
| Net investment income |  |  | - |  |  | 26,142,507 |  |  | (26,142,507) | |
| Benefit payments, including refunds of employee contributions |  |  | (21,116,401) |  |  | (21,116,401) |  |  | - | |
| Administrative expenses |  |  | - |  |  | (27,882) |  |  | 27,882 | |
| Net changes |  | $ | 26,893,108 |  | $ | 17,661,899 |  | $ | 9,231,209 | |
|  |  |  |  |  |  |  |  |  |  | |
|  |  |  |  |  |  |  |  |  |  | |
| Balances at September 30, 2017 |  | $ | 437,564,715 |  | $ | 387,352,418 |  | $ | 50,212,297 | |
|  |  |  |  |  |  |  |  |  |  | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Firefighters' Retirement System** | | | | | | | | | |
|  |  |  | **Total Pension** |  |  | **Plan Fiduciary** |  |  | **Net Pension** | |
| **Change in the Net Pension Liability** |  |  | **Liability** |  |  | **Net Position** |  |  | **Asset (Liability)** | |
|  |  |  |  |  |  |  |  |  |  | |
| Balances at September 30, 2016 |  | $ | 217,772,186 |  | $ | 229,986,610 |  | $ | (12,214,424) | |
|  |  |  |  |  |  |  |  |  |  | |
| Changes for the year: |  |  |  |  |  |  |  |  |  | |
| Service Cost |  | $ | 3,249,371 |  | $ | - |  | $ | 3,249,371 | |
| Interest |  |  | 16,977,052 |  |  | - |  |  | 16,977,052 | |
| Differences between expected and actual experience |  |  | 2,343,382 |  |  | - |  |  | 2,343,382 | |
| Changes in assumptions |  |  | - |  |  | - |  |  | - | |
| Contributions - City |  |  | - |  |  | 4,477,204 |  |  | (4,477,204) | |
| Contributions - Member |  |  | - |  |  | 1,032,503 |  |  | (1,032,503) | |
| Contributions - State |  |  | - |  |  | 1,805,108 |  |  | (1,805,108) | |
| Net investment income |  |  | - |  |  | 25,556,376 |  |  | (25,556,376) | |
| Benefit payments, including refunds of employee contributions |  |  | (17,616,852) |  |  | (17,616,852) |  |  | - | |
| Administrative expenses |  |  | - |  |  | (30,454) |  |  | 30,454 | |
| Net changes |  | $ | 4,952,953 |  | $ | 15,223,885 |  | $ | (10,270,932) | |
|  |  |  |  |  |  |  |  |  |  | |
|  |  |  |  |  |  |  |  |  |  | |
| Balances at September 30, 2017 |  | $ | 222,725,139 |  | $ | 245,210,495 |  | $ | (22,485,356) | |
|  |  |  |  |  |  |  |  |  |  | |

**NOTE 18 – EMPLOYEE DEFINED BENEFIT PENSION PLANS - (Continued)**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Police Officers' Retirement System** | | | | | | | | | |
|  |  |  | **Total Pension** |  |  | **Plan Fiduciary** |  |  | **Net Pension** | |
| **Change in the Net Pension Liability** |  |  | **Liability** |  |  | **Net Position** |  |  | **Liability** | |
|  |  |  |  |  |  |  |  |  |  | |
| Balances at September 30, 2016 |  | $ | 395,215,991 |  | $ | 363,964,270 |  | $ | 31,251,721 | |
|  |  |  |  |  |  |  |  |  |  | |
| Changes for the year: |  |  |  |  |  |  |  |  |  | |
| Service Cost |  | $ | 5,872,895 |  | $ | - |  | $ | 5,872,895 | |
| Interest |  |  | 31,018,382 |  |  | - |  |  | 31,018,382 | |
| Differences between expected and actual experience |  |  | 13,610,507 |  |  | - |  |  | 13,610,507 | |
| Change in assumptions |  |  | - |  |  | - |  |  | - | |
| Contributions - City |  |  | - |  |  | 7,770,299 |  |  | (7,770,299) | |
| Contributions - Member |  |  | - |  |  | 2,191,312 |  |  | (2,191,312) | |
| Contributions - State |  |  | - |  |  | 1,897,530 |  |  | (1,897,530) | |
| Net investment income |  |  | - |  |  | 29,466,872 |  |  | (29,466,872) | |
| Benefit payments, including refunds of employee contributions |  |  | (26,871,033) |  |  | (26,871,033) |  |  | - | |
| Administrative expenses |  |  | - |  |  | (63,443) |  |  | 63,443 | |
| Net changes |  | $ | 23,630,751 |  | $ | 14,391,537 |  | $ | 9,239,214 | |
|  |  |  |  |  |  |  |  |  |  | |
|  |  |  |  |  |  |  |  |  |  | |
| Balances at September 30, 2017 |  | $ | 418,846,742 |  | $ | 378,355,807 |  | $ | 40,490,935 | |
|  |  |  |  |  |  |  |  |  |  | |

*Sensitivity of the net pension (asset) liability to changes in the discount rate (Employer Reporting)*

The following presents the net pension (asset) liability of the pension plans, calculated using the current discount rate, as well as what the pension plan’s net pension (asset) liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **1% Decrease** |  |  | **Current Discount Rate** |  |  | **1% Increase** |
|  |  |  |  |  |  |  |  |  |
| **Employees' Retirement**  **System net pension liability (asset)** | $ | 102,720,063 |  | $ | 50,212,297 |  | $ | 3,330,363 |
|  |  | *6.75%* |  |  | *7.75%* |  |  | *8.75%* |
|  |  |  |  |  |  |  |  |  |
| **Firefighters' Retirement**  **System net pension liability (asset)** | $ | 678,058 |  | $ | (22,485,356) |  | $ | (43,466,709) |
|  |  | *7.00%* |  |  | *8.00%* |  |  | *9.00%* |
|  |  |  |  |  |  |  |  |  |
| **Police Officers' Retirement**  **System net pension liability (asset)** | $ | 90,751,811 |  | $ | 40,490,935 |  | $ | (4,384,847) |
|  |  | *7.00%* |  |  | *8.00%* |  |  | *9.00%* |

**NOTE 18 – EMPLOYEE DEFINED BENEFIT PENSION PLANS - (Continued)**

*Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension*

For the year ended September 30, 2017, the City recognized pension expense (benefit) related to the change in net pension liability and related components of ($3,398,603), ($2,236,056) and $3,386,943 for the Employees’ Retirement System, Firefighters’ Retirement System and Police Officers’ Retirement System, respectively. The City recognized a benefit in fiscal year 2017 and 2016 due to the deferred outflow of pension plan contributions.

At September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the below sources for each pension plan.

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Deferred Outflow of Resources** | | | | | | | | | | | |
|  |  | **Employees’** |  |  | **Firefighters’** |  |  | **Police** |  |  |  |
|  |  | **Retirement** |  |  | **Retirement** |  |  | **Officers’** |  |  |  |
|  |  | **System** |  |  | **System** |  |  | **Retirement** |  |  | **Total** |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Difference between expected and actual |  |  |  |  |  |  |  |  |  |  |  |
| experience (2017) | $ | 6,496,749 |  | $ | 1,874,715 |  | $ | 10,207,880 |  | $ | 18,579,344 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Difference between expected and actual |  |  |  |  |  |  |  |  |  |  |  |
| investment earnings (2017) |  | 1,946,412 |  |  | (6,016,344) |  |  | (657,195) |  |  | (4,727,127) |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Difference between projected and actual |  |  |  |  |  |  |  |  |  |  |  |
| investment earnings (2016) |  | 17,860,668 |  |  | 10,460,147 |  |  | 18,746,728 |  |  | 47,067,543 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Difference between projected and actual |  |  |  |  |  |  |  |  |  |  |  |
| investment earnings (2015) |  | (3,816,277) |  |  | (2,720,161) |  |  | (3,365,785) |  |  | (9,902,223) |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Employer contributions made between measurement |  |  |  |  |  |  |  |  |  |  |  |
| date and the reporting date |  | 10,310,841 |  |  | 1,378,771 |  |  | 7,562,663 |  |  | 19,252,275 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Balances, Ending | $ | 32,798,393 |  | $ | 4,977,128 |  | $ | 32,494,291 |  | $ | 70,269,812 |
|  |  |  |  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Deferred Inflow of Resources** | | | | | | | | | | | |
|  |  | **Employees’** |  |  | **Firefighters’** |  |  | **Police** |  |  |  | |
|  |  | **Retirement** |  |  | **Retirement** |  |  | **Officers’** |  |  |  | |
|  |  | **System** |  |  | **System** |  |  | **Retirement** |  |  | **Total** | |
|  |  |  |  |  |  |  |  |  |  |  |  | |
| Difference between expected and actual experience 2016 | $ | (4,130,848) |  | $ | (362,620) |  | $ | (336,980) |  | $ | (4,830,448) | |
|  |  |  |  |  |  |  |  |  |  |  |  | |
| Changes of assumptions |  | (2,372,074) |  |  | (2,434,223) |  |  | (1,383,402) |  |  | (6,189,699) | |
|  |  |  |  |  |  |  |  |  |  |  |  | |
| Total | $ | (6,502,922) |  | $ | (2,796,843) |  | $ | (1,720,382) |  | $ | (11,020,147) | |
|  |  |  |  |  |  |  |  |  |  |  |  | |

**NOTE 18 – EMPLOYEE DEFINED BENEFIT PENSION PLANS - (Continued)**

The deferred outflows of resources includes resources from City contributions to the plans subsequent to the measurement date and the difference between projected and actual investment earnings. The City contributions to the Plans subsequent to the measurement date, $19,252,275, will be recognized as a reduction of the net pension liability in the fiscal year ending September 30, 2018. Other amounts reported as deferred outflows of resources related to the pension plans will be recognized in pension expense as follows:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Future Years' Recognition of Deferred Outflows** | | | | | | | | |
|  |  | **Employees’** |  | **Firefighters’** |  | **Police Officers’** |  |  | |
|  |  | **Retirement** |  | **Retirement** |  | **Retirement** |  |  | |
| **Fiscal Year** |  | **System** |  | **System** |  | **System** |  | **Total** | |
|  |  |  |  |  |  |  |  |  | |
| 9/30/2018 |  | 6,156,208 |  | 1,091,225 |  | 7,804,345 |  | 15,051,778 | |
| 9/30/2019 |  | 6,156,208 |  | 1,091,225 |  | 7,804,345 |  | 15,051,778 | |
| 9/30/2020 |  | 8,064,346 |  | 2,451,306 |  | 9,487,237 |  | 20,002,889 | |
| 9/30/2021 |  | 2,110,790 |  | (1,035,399) |  | (164,299) |  | 911,092 | |
| 9/30/2022 |  | - |  | - |  | - |  | - | |
| Thereafter |  | - |  | - |  | - |  | - | |
|  | $ | 22,487,552 | $ | 3,598,357 | $ | 24,931,628 | $ | 51,017,537 | |
|  |  |  |  |  |  |  |  |  | |

Other amounts reported as deferred inflows of resources related to the Pensions Plans will be recognized in pension expense as follows:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Future Years' Recognition of Deferred Inflows** | | | | | | | | |
|  |  | **Employees’** |  | **Firefighters’** |  | **Police Officers’** |  |  | |
|  |  | **Retirement** |  | **Retirement** |  | **Retirement** |  |  | |
| **Fiscal Year** |  | **System** |  | **System** |  | **System** |  | **Total** | |
|  |  |  |  |  |  |  |  |  | |
| 9/30/2018 |  | 2,322,473 |  | 1,331,830 |  | 1,075,238 |  | 4,729,541 | |
| 9/30/2019 |  | 2,322,473 |  | 1,331,830 |  | 645,144 |  | 4,299,447 | |
| 9/30/2020 |  | 1,857,976 |  | 133,183 |  | - |  | 1,991,159 | |
| 9/30/2021 |  | - |  | - |  | - |  | - | |
| 9/30/2022 |  | - |  | - |  | - |  | - | |
| Thereafter |  | - |  | - |  | - |  | - | |
|  | $ | 6,502,922 | $ | 2,796,843 | $ | 1,720,382 | $ | 11,020,147 | |
|  |  |  |  |  |  |  |  |  | |

The Firefighters' Retirement System and Police Officers' Retirement System net pension liability, deferred inflows and outflows of resources and pension expense is allocated 100% to governmental activities in the government-wide financial statements. The Employees' Retirement System net pension liability, deferred inflows and outflows of resources and pension expense is allocated proportionately to governmental activities in the government-wide financial statements and the City's enterprise funds based on the City's allocation of the actuarially determined contribution.

**NOTE 18 – EMPLOYEE DEFINED BENEFIT PENSION PLANS - (Continued)**

H. EMPLOYER REPORTING: FUNDING FOR PENSIONS

The City’s funding for the pension plans is separate than the accounting for the pension plans as discussed in the section on net pension liability. The City receives a separate actuary valuation report with different actuarial assumptions applied to calculate the City's actuarially determined contribution for funding purposes. The City's actuarially determined contribution made to the pension plans in fiscal year 2017 was calculated as of October 1, 2015, two years prior to the year the contributions are reported.

See required supplemental information section for more detail on the actuarially determined contribution related to fiscal year 2017.

The following schedules reflect the current year and two preceding years' actuarially determined contributions and the assumptions utilized to calculate the City's actuarially determined contribution for the three pension plans funding purposes as of the October 1, 2015 valuation.

|  |  |  |  |
| --- | --- | --- | --- |
| **Employees’ Retirement System**  **Schedule of Contributions for Employer** | | | |
| Fiscal Year | Determined Employer Contributions | Actual Employer Contributions | %  Contributed |
| 9/30/17 | $ 10,310,841 | $ 10,310,841 | 100% |
| 9/30/16 | $ 11,198,451 | $ 11,198,451 | 100% |
| 9/30/15 | $ 12,778,435 | $ 12,778,435 | 100% |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Firefighters’ Retirement System**  **Schedule of Contributions for Employer and Other Contributing Entity** | | | | | | | |
|  | Determined Contribution | Determined Contribution | Determined Contribution | Actual Contribution | Actual Contribution | Actual Contribution | % Contr. | |
| Fiscal Year | Employer | State | Total | Employer | State | Total | Employer /State | |
| 9/30/17 | $ 1,378,771 | $ 1,210,916 | $ 2,589,687 | $ 1,378,771 | $ 1,210,916 | $ 2,589,687 | 100% | |
| 9/30/16 | $ 4,477,204 | $ 1,210,196 | $ 5,687,400 | $ 4,477,204 | $ 1,210,296 | $ 5,687,400 | 100% | |
| 9/30/15 | $ 7,725,079 | $ 1,210,916 | $ 8,935,995 | $ 7,725,079 | $ 1,210,916 | $ 8,935,995 | 100% | |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Police Officers’ Retirement System**  **Schedule of Contributions for Employer and Other Contributing Entity** | | | | | | | |
|  | Determined Contribution | Determined Contribution | Determined Contribution | Actual Contribution | Actual Contribution | Actual Contribution | % Contr. | |
| Fiscal Year | Employer | State | Total | Employer | State | Total | Employer/ State | |
| 9/30/17 | $ 7,562,663 | $ 1,677,009 | $ 9,239,672 | $ 7,562,663 | $ 1,677,009 | $ 9,239,672 | 100% | |
| 9/30/16 | $ 7,770,299 | $ 1,677,009 | $ 9,447,308 | $ 7,770,299 | $ 1,677,009 | $ 9,447,308 | 100% | |
| 9/30/15 | $ 10,258,299 | $ 1,650,834 | $ 11,909,133 | $ 10,258,299 | $ 1,650,834 | $ 11,909,133 | 100% | |

**NOTE 18 – EMPLOYEE DEFINED BENEFIT PENSION PLANS - (Continued)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Employees' Retirement System** |  | **Firefighters' Retirement System** |  | **Police Officers' Retirement System** |
| **Funding Actuarial Assumptions** |  |  |  |  |  |
|  |  |  |  |  |  |
| Valuation Date | October 1, 2015 |  | October 1, 2015 |  | October 1, 2015 |
|  |  |  |  |  |  |
| Actuarial Cost Method | Entry Age Normal |  | Entry Age Normal |  | Entry Age Normal |
|  | Level % of Pay |  | Level % of Pay |  | Level % of Pay |
|  |  |  |  |  |  |
| Amortization Method | Level percent closed |  | Level percent closed |  | Level percent closed |
|  |  |  |  |  |  |
| Amortization Period | 30 years |  | 30 years |  | 30 years |
|  |  |  |  |  |  |
| Aggregate compensation increase annually | 0.20% |  | 0.00% |  | 0.50% |
|  |  |  |  |  |  |
| Asset valuation method | Four year phase in of investment gains and losses |  | Four year phase in of investment gains and losses |  | Four year phase in of investment gains and losses |
|  |  |  |  |  |  |
| Investment rate of return | 7.75% |  | 8.00% |  | 8.00% |
|  |  |  |  |  |  |
| Projected salary increases | 5.00% to 8.50% |  | 1.00% to 5.50% in Fiscal 2016 |  | 4.50% to 8.00% |
|  |  |  | 5.00% to 9.50% thereafter |  |  |
|  |  |  |  |  |  |
| Cost of living adjustments |  |  |  |  |  |
| Prior Plan | 2.00% |  | 3.00% in Fiscal 2016 for Chiefs and Captains,0.00% for remainder of population |  | 1.70% in Fiscal 2016 |
|  |  |  | 4.00% thereafter |  | 2.00% thereafter |
| Supplemental Plan | 1.50% |  | 0.00% |  | 5.717% for Officers, 5.588% for Sergeants, 4.679% for lieutenants and 3.00% for management; 4.00% thereafter |

**NOTE 19 – DEFINED CONTRIBUTION PLAN**

The City contributes to a defined contribution plan, the City of St. Petersburg 401(a) Plan ("Plan"), established by City Ordinance for exempt management employees and employees not covered by a collective bargaining agreement who have waived membership in the General Employees’ Retirement System, of which 90 have so chosen. The plan is administered by International City Management Association Retirement Corporation (ICMA-RC). Plan participants fully vest upon eligibility to participate. The City contributes to the 401a plan account for participants at a rate which is approved by City Council. During the fiscal year ended September 30, 2017, the rate was 11% of pre-deferral salary. The total City contribution to the 401a plan was $1,588,818 or 11% of covered payroll. For the fiscal year ended September 30, 2017, payroll covered by this plan was $14.4 million compared to the total City payroll of approximately $191.7 million.

**NOTE 20 – OTHER POST-EMPLOYMENT BENEFITS**

A. SUPPLEMENTAL PAYMENTS LIABILITY FOR CERTAIN POLICE OFFICERS'

Background

Certain police officers who retired from March 2008 through February 2011 were paid benefits from the Police Officers’ Retirement System (“PORS”) that exceeded the amount under the terms of the Retirement System due to inclusion of extra compensation in the determination of benefits. For certain retirees who have elected to participate, the City will continue to pay directly to the retiree an amount in excess of the corrected benefit payable under the PORS (“supplemental payments”). There are 52 members receiving supplemental payments, including 46 retired members, 3 disabled members, and 3 beneficiaries.

Liability

The City obtained an actuarial valuation for the liability as of September 30, 2017. The City's long term obligation as of September 30, 2017 associated with the supplemental payments for participating police officers is $1,174,000, as reported in the Statement of Net Position.

Actuarial Assumptions

The liability is based on a discount rate of 4.50% and the mortality table used by the Florida Retirement System for individuals classified as special risk. The mortality table is one required by the State of Florida (Chapter 2015-157) to be used for liability calculations effective January 1, 2016 and is the same table used for the October 1, 2017 actuarial valuation for the Police Retirements System (same mortality tables as the Police Retirement System October 1, 2016 actuarial valuation). The calculations were based on member census data provided by the City for the police officers receiving the supplemental payments.

B. POST-RETIREMENT HEALTH BENEFITS

Plan Description:

The City follows GASB Statement 45, "*Accounting and Financial Reporting by Employers for Post-employment Benefits other than Pensions"* to account for certain post-retirement health benefits provided by the City. A separate audited GAAP basis post retirement plan report is not prepared for this defined benefit plan. The City sponsors a single employer defined benefit “other post-employment benefit” (“OPEB”) plan. Benefits are stipulated resolutions approved by City Council and through union agreements with the employees and any changes to the benefits must be addressed through union negotiations. Retirees who meet certain age and service requirements may elect coverage for themselves and dependents in one of three health plans: two preferred provider organizations (“PPOs”) and an exclusive provider organization (EPO). After age 65, retirees have the additional choice of two Medicare Advantage plans. The City currently pays an explicit subsidy equal to 75% of the blended (active and retired) rate for the lowest cost PPO (or the total premium, if less), plus the implicit subsidy equal to the difference between the actual retiree cost (“ARC”) and the blended rate. Beginning January 1, 2010, the maximum dollar amount of the explicit employer subsidy was frozen for employees who retire after 2009. These retirees will pay the full cost of any increases in the blended premium in excess of the frozen maximum subsidy.

**NOTE 20 – OTHER POST-EMPLOYMENT BENEFITS** - **(Continued)**

Funding Policy

All of the above benefit plans are provided through insurance companies or health maintenance organizations (HMO). Some health plan premiums are based on the benefits paid during the plan period ending March 31. The City recognizes the cost of providing benefits by expensing monthly premiums, on a pay-as-you-go basis. There are no plans at this time to fund the OPEB liability and therefore there are no plan assets. For the fiscal year ended September 30, 2017, the cost of retiree health care for 1,120 participants was $13,241,865 of which $4,811,974 was paid by the retirees. The City offers vision, dental and AD&D policies paid for entirely by active and retired employees.

Annual OPEB Cost and OPEB Obligation

The City received the current year results of an actuarial valuation report for retiree health benefits as of October 1, 2016 for fiscal year 2017. The valuation was completed under the requirements of GASB Statement 45. The development of the Net OPEB Obligation is listed below for the fiscal year ended September 30:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | 2017 |  | 2016 |  |  | 2015 |
| Annual Required Contribution | $ | 15,664,000 | $ | 16,447,000 |  | $ | 13,555,000 |
| Interest on the Net OPEB Obligation |  | 3,255,002 |  | 2,805,000 |  |  | 2,438,000 |
| Adjustment on the ARC |  | (4,440,000) |  | (3,603,000) |  |  | (2,812,000) |
| Annual OPEB Costs |  | 14,479,002 |  | 15,649,000 |  |  | 13,181,000 |
| Less: Contributions made |  | (6,050,000) |  | (5,643,000) |  |  | (5,041,000) |
| Increase in Net OPEB Obligation |  | 8,429,002 |  | 10,006,000 |  |  | 8,140,000 |
| Net OPEB Obligation – beginning of year |  | 72,330,000 |  | 62,324,000 |  |  | 54,184,000 |
| Net OPEB Obligation – end of year | $ | 80,759,002 | $ | 72,330,000 |  | $ | 62,324,000 |
|  |  |  |  |  |  |  |  |

Percentage of Annual OPEB Cost Contributed and Net OPEB Obligation

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Fiscal Year |  | Annual OPEB Cost |  | Contribution |  | Percentage of Annual OPEB Cost Contributed |  | Net OPEB Obligation |
| 9/30/17 |  | 14,479,000 |  | 6,050,000 |  | 42% |  | 80,759,000 |
| 9/30/16 |  | 15,649,000 |  | 5,643,000 |  | 36% |  | 72,330,000 |
| 9/30/15 |  | 13,181,000 |  | 5,041,000 |  | 38% |  | 62,324,000 |
| 9/30/14 |  | 12,923,000 |  | 7,085,000 |  | 55% |  | 54,184,000 |
| 9/30/13 |  | 13,868,000 |  | 6,253,000 |  | 45% |  | 48,346,000 |
| 9/30/12 |  | 13,503,000 |  | 6,274,000 |  | 47% |  | 40,731,000 |
| 9/30/11 |  | 13,247,000 |  | 5,471,000 |  | 41% |  | 33,502,000 |
| 9/30/10 |  | 12,525,000 |  | 6,187,000 |  | 49% |  | 25,726,000 |

Funded Status and Funding Progress

As of September 30, 2017, the actuarial accrued liability for benefits was $199,781,000, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the Plan) was $143,194,193 and the ratio of unfunded actuarial accrued liability (UAAL) to covered payroll is 139.5%.

**NOTE 20 – OTHER POST-EMPLOYMENT BENEFITS** - **(Continued)**

Actuarial valuations reflect a long-term perspective and involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The schedule of government contributions and two year trend information along with the schedule of funding progress for the current year and two years prior (the dates of the actuarial valuations as required) can be found in the Required Supplementary Information.

Actuarial Methods of Assumptions

Calculations are based on the types of benefits provided under the terms of the substantive plan, including the method of sharing of costs between the employer and plan members.

In the October 1, 2016 actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 3% inflation rate, 4.5% investment rate of return (net of administrative expenses), and aggregate compensation is assumed to increase 1.50% per year for the Police Plan, 0.2% per year for the ERS/401a Plan, and 0.00% for the Fire Plan. Annual healthcare cost trend rates are based on actual premium rate increases from April 1, 2016 to April 1, 2017 as follows; 4% for all health plans pre-65, 3.2% for future retirees and existing retirees who are currently under 65, -.08% for existing retirees over 65 currently enrolled and -5.0% for existing retirees over 65 currently enrolled. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll over an open 30 year period.

Changes from the prior actuarial valuation October 1, 2014 assumptions are as follows: assumed per capita health plan costs, retiree contributions and total premiums were updated to reflect the most recent experience; the assumptions for mortality were updated to reflect recent research; healthcare cost trend rates updated to reflect industry expectations on increases; aggregate compensation has been updated; and DROP period length and participation, plan participation and the percentage of future retirees covering dependents were updated to reflect the last two years of experience.

**NOTE 21 - TAX ABATEMENT**

The City provides tax abatements under four programs: the Historical Preservation Ad Valorem Tax Exemption, the Affordable Multifamily Housing Development Program, Economic Development Ad Valorem Tax Exemption Program and the Reduced Transportation Impact Fee Program.

* The Historical Preservation Ad Valorem Tax Exemption program is an abatement for up to ten years on increases in St. Petersburg and Pinellas County property taxes resulting from an approved renovation to a historic building. This is city and county program that exempts eligible property owners from an increase in city or county taxes resulting from an approved renovation for ten years. Available to individually listed historic properties or those contributing to a historic district, many of which are located in downtown St. Petersburg.  Projects must expend in construction costs a sum at least 10% of the assessed taxable value of the property. Project must be reviewed and approved by the City of St. Petersburg prior to construction.  City Council approves tax exemption after work is completed. The maximum incentive for a single family home is $100,000 and $1,000,000 for all others.
* The Affordable Multifamily Housing Development Program was passed by City Council Resolution 2016-48 as part of the South St. Petersburg CRA Redevelopment Program. The Affordable Multifamily Housing Development Program provides an annual property tax rebate for up to fifteen years on increases in ad valorem taxes for all applicable Pinellas County taxing authorities for developers of new and substantially renovated affordable multifamily housing in the CRA. The rebate, which must first be approved by the Agency and City Council, will be based on the increase in ad valorem taxes in the first year the completed project goes on the tax rolls. The maximum award is $50,000 per project per year and both City and County Tax Increment Financing ("TIF") contributions will be used to fund the program.  For the purposes of this program, “affordable housing” is defined as housing meeting the needs of households whose income is 80 percent or below the area median household income. The maximum income and rent levels for this program are based on those established by the Florida Housing Finance Corporation’s SHIP Program.
* The Economic Development Ad Valorem Tax Exemption Program was passed by City Council Ordinance 51-H on October 18, 2012 to grant ad valorem tax exemptions (city only) to qualifying new businesses and expansions of existing business that create new full-time jobs in the City. The tax exemption for qualifying businesses will apply only to the new increment of the assessed St. Petersburg millage on improvements including tangible property. The annual overall program cap is $1.5 million of exempted taxes and the individual project cap is $100,000 of exempted taxes. The duration of the exemption is 5 years with the ability of City Council to approve a maximum of 10 years, allowed by the Florida Statutes, if a business meets the bonus criteria. A business is required to submit a notice of intent, notifying the City of its location or expansion plans, and desire to apply for the incentive prior to making application for a building permit. A business must file an exemption application with the City by February 1st in the year that the Pinellas County Property Appraiser will first assess ad valorem property taxes on the improvements.

**NOTE 21 - TAX ABATEMENT - (Continued)**

* The Reduced Transportation Impact Fee program is to encourage capital investment whereas projects located in certain areas of the city are eligible for reduced TIF rates. The city collects transportation impact fees (TIF's) for land development projects to fund needed transportation system improvements to support new trips generated by the project. TIF rates are based on project type and size.

Information relevant to the disclosure of those programs for the fiscal year ended September 30, 2017 is as follows:

|  |  |
| --- | --- |
| **Tax Abatement Program** | **Amount of Taxes Abated during the Fiscal Year** |
| Historical Preservation Ad Valorem Tax Exemption | $47,754 |
| Economic Development Ad Valorem Tax Exemption | $86,917 |
| Reduced Transportation Impact Fee | $0 |
| Economic Development Commercial Revitalization Program | $0 |

**NOTE 22 - LITIGATION**

The City is a defendant in various litigation incidental to its routine operations. In the opinion of the City Attorney, based upon the amount of damages alleged in the various cases and facts currently known, the potential liabilities in these cases will not materially affect the City’s financial position. The City has established a general liability account within the Insurance Internal Service Fund and has reflected its best estimates of the present dollar value of such liabilities.