

I joined the board in July 2014 and have been chairman for about 4 months.

This meeting was initiated by me in order to review what I was told was a forensic audit.

The normal business practice is for an auditor to meet with the board after completion of an audit to discuss any findings.

However, Mr. Seidel never bothered to contact the board at any time during this entire process.

As a new chairman, I actually looked forward to the completion of a forensic audit. I felt that a forensic audit would help give me assurance as a new chairman that the fund's finances are in order.

I was also optimistic having just completed pension reform with Mr. Guilliford and his assurances that the political games were over. We were going to continue to work together to solve the pension debt issues with solutions based on sound financial principles and facts.

After a quick review of Mr. Seidel's work, it was very obvious that it was not a forensic audit, it is just a bunch of personal opinions, unsupported allegations, and misused reference material.

Mr. Seidel is entitled to his personal opinions and I may actually agree with some of them, but going back and forth on personal opinions puts us right back to where we were **before** the pension reform – completely unproductive

So today I am here to ask a few clarifying questions,
Discuss transparency,
Provide some addition information,
Give an overview of the management of the board
and discuss the real causes of the pension debt

My Questions to Mr. Seidel:

- Was there any specific credible evidence uncovered that would identify any person from the pension fund who committed any criminal acts?
 - If there is, please provide that information to law enforcement so we can assist in the prosecution.
 - If there isn't, please stop making unsupported allegations of criminal conduct.

Transparency

Transparency is absolutely imperative for the fund and I have repeatedly stressed to any and all parties inside and outside of the fund, that the business of the pension fund is completely open.

The financial documents don't belong to the fund, they belong to the public.

I stress to you again, any financial documents you want, you may have.

The invitation is extended once again for full and complete access to any financial documents in any drawer, filing cabinet, box, office, or storage room of the fund.

- If we need to hire temporary help to copy every single page of every financial document in the entire building, that is what we will do.
- It is an expensive project for the taxpayers, but if that is what you want done then we will make it happen.

Speaking of transparency, before I give you an overview of the management of the PFPF it is important to note that some of the items referred to in Mr. Seidel's document are at a minimum a bit of a stretch and misleading.

One item that immediately caught my attention that is worth pointing out here.

MISUSE OF REFERENCED MATERIAL IN MR. SEIDEL'S DOCUMENT:

- Page 32/144 of Mr. Seidel's document:
"Most significantly, conflicts of interest at investment consulting firms were found to result in substantial financial harm to plans by the U.S. Government Accountability Office ("GAO") in a 2007 report, i.e., plans using consultants with undisclosed conflicts of interest had annual returns generally 1.3 percent lower. For almost twenty years, from 1988 through December 31, 2007, Merrill Lynch, a broker-affiliated investment consultant, served as the investment consultant to the Board. If, as the GAO study found, pension consultant conflicts cost plans 1.3 percent, then over a 20-year period, with compounding, such conflicts may have cost the Fund almost 30 percent of its value—perhaps \$300-\$500 million."
- **Here is what the GAO 2007 report actually says:**
<http://www.gao.gov/new.items/d07703.pdf>
 - "Though data are limited on the prevalence of conflicts involving plan fiduciaries and consultants, a 2005 SEC staff report examining 24 registered pension consultants identified 13 [specific consultants] that failed to disclose significant conflicts. GAO's analysis found that, in 2006, these 13 [specific] consultants had over \$4.5 trillion in U.S. assets under advisement. GAO also analyzed a sample of ongoing DB plans associated with the 13 [specific] consultants that, as of year-end 2004, had total assets of \$183.5 billion and average assets of \$155.3 million. Additional sample analysis showed that the DB plans using these 13 [specific] consultants had annual returns **generally** 1.3 percent lower than those that did not. **Because many factors can affect returns, and data as well as modeling limitations limit the ability to generalize and interpret the results, this finding should not be considered as proof of causality between consultants and lower rates of return,** although it suggests the importance of detecting the presence of conflicts among pension plans."
- The following information was also in the same GAO 2007 Report. Insert "City of Jacksonville" in place of "United Airlines" to get a picture of why it is important to not have the City of Jacksonville control the fund:
 - "According to experts we interviewed, fiduciaries of pension plans often have an inherent conflict of interest because they are frequently employees of the plan sponsor. As fiduciaries, they are charged by law to act solely in the interest of plan participants and beneficiaries, but they may also have loyalty to the plan sponsor. For example, in 2004, United Airlines, a plan sponsor, appointed itself fiduciary of its employee pension plans after all three members of its plan trustee board resigned during bankruptcy negotiations. A conflict of interest existed because the newly appointed fiduciaries would have reason to make decisions that would benefit the plan sponsor instead of the plan participants. In this instance, the fiduciaries of the United Airlines' plans faced the obligation to ensure that minimum funding standards explicitly set in ERISA were satisfied by the plan sponsor. United Airlines subsequently decided to stop making contributions to the pension plans it was attempting to terminate. Labor stated that United Airlines' decision to stop funding its pension plans made clear the need to appoint an independent fiduciary to represent the interest of workers and retirees and resolve this conflict of interest. Subsequently, Labor and United Airlines agreed that United Airlines would appoint an independent fiduciary."

Overview of Police & Fire Pension Fund Plan Management

- The Police and Fire Pension Fund is audited annually by an Independent Certified Public Accountant
- An Actuarial Valuation is completed each year by an outside actuary
- The audited financial statements, actuary reports, budgets, and monthly investment return reports (gross and net of fees) are all posted on the fund web site for complete transparency
- The structure and oversight of the Police and Fire Pension Fund is standard throughout the state of Florida and is **the same structure and oversight the city utilizes to manage the General Employees Pension Plan and the Corrections Officers Pension Plan:**
 - The fund has a Board of Trustees along with
 - A Fund Treasurer
 - A Controller
 - A Trust Company
 - An Independent Auditor
 - An Actuary
 - A Professional Pension Consultant
 - Professional Money Managers
 - Attorneys
 - In addition, the Florida Division of Retirement reviews every report annual
 - This structure and governance is the structure and governance approved by the 2015 agreement
 - The Board of Trustees is required to meet quarterly but usually meet monthly or more often
 - The Board Members of the Police and Fire Pension Fund are volunteers who are
 - Community oriented – giving their time and talents for the benefit of the police officers, firefighters, and citizens of Jacksonville
 - This is an extra responsibility that they have taken on in a very challenging environment
 - Recent board members include
 - Former JEA Chief Executive Walt Bussells (recently replaced on the board)
 - Attorney Bill Scheu (city council appointee replaced Walt Bussells)
 - Former Sheriff Nat Glover
 - Fire Lieutenant Rich Tuten
 - Dr. Adam Herbert (former president of the University of North Florida)
- The Treasurer for the City of Jacksonville is also the Treasurer for the General Employees Pension Plan, the Corrections Officers Pension Plan, and the Police and Fire Pension Plan
 - The Treasurer regularly utilizes the combined bargaining power of all three pension plans to negotiate lower fees for all three plans.
 - The Treasurer attends most board meetings and gives regular updates to the board regarding negotiated investment fees.

- The Police and Fire Pension Fund utilizes the same Pension Consultant (Summit Strategies) that the City of Jacksonville selected to use for the General Employees Pension Plan and the Corrections Officers Pension Plan.
 - The consultant provides monthly investment reports to the board and is reviewed monthly at the board meetings
 - The consulting reports include investment returns gross and net of fees
 - The consultant is in regular contact with the Treasurer
- The Police and Fire Pension Fund utilizes some of the same core group of professional money managers that the City of Jacksonville selected to use for the General Employees Pension Plan and the Corrections Officers Pension Plan.
- The Police and Fire Pension Fund utilizes the same outside attorney for pension related issues that the City of Jacksonville selected to use for the General Employee Pension Plan and the Corrections Officers Pension Plan.
- Investment policies (asset allocations) are similar in all three plans.
- Investment returns are similar among the plans.
- If a majority of the unfunded liability is in fact due to poor management as suggested, why are the General Employees Pension Plan and the Corrections Officers Pension Plans not fully funded?

Both plans are managed by the City of Jacksonville

 - But they are only funded at 66% and 48% as of 09/30/14.
 - Both of these plans have a higher investment assumption rate than the PFPF (7.5% compared to 7.0% for the PFPF).
 - If the city managed plans used the more realistic assumption rate that is used by the PFPF, the funding percentages for those plans would be even lower.
 - The higher assumption masks the true unfunded liabilities of the city managed funds.
- The main cause of the unfunded liability continues to be the cumulative impact of using the pension fund to supplement the artificially low millage rate for many years.
 - This was a financial decision made by several administrations and was a calculated risk.
 - There were benefits to the decisions that were enjoyed at the time, and now we are experiencing the negative side of those decisions.
 - A summary of the funding history of the pension fund shows a clear financial correlation between the millage rate and the unfunded liability.
 - Copies of this summary have been printed along with a summary of the plan since 1990
 - All of these documents will also be posted on the fund web site
 - I am hopeful that the other council members will review the financial information provided and draw their own conclusions.
 - Mr. Guilliford has stated that he thinks the PFPF should be under the management of the city. I understand his position, but paying somebody \$85,000 to create a document full of opinions, misinformation, and unsubstantiated allegations is not beneficial to our community.

- As a board, we will:
 - Remain committed to complete transparency by continuing to post on the fund web site the audited financial statements, actuary reports, budgets, and monthly investment return reports (gross and net of fees).
 - Hire all the personnel necessary to make copies of any and all financial records requested.
 - We have already limited the amount of travel that will be allowed by the future executive director.
 - We will specifically dig into the commission recapture process to determine what accounting and reporting improvements can be made in that area.
 - We will also review the other information in the document to see if there is merit to any of the allegations of wrongdoing.