JACKSONVILLE POLICE AND FIRE PENSION FUND

JOINT SPECIAL MEETING OF THE BOARD OF TRUSTEES AND THE FINANCIAL INVESTMENT ADVISORY COMMITTEE

DATE: April 10, 2017

TIME: 9:05 a.m. to 1:32 p.m.

PLACE: Jacksonville Police and Fire Pension Fund
One West Adams Street
Suite 100
Jacksonville, Florida 32202

BOARD MEMBERS PRESENT:

Richard Tuten, III, Board Chair
Richard Patsy, Board Secretary
William Scheu, Trustee (via Webex)
Chris Brown, Trustee

STAFF PRESENT:

Timothy Johnson, Executive Director
Stephen Lundy, Pension Benefits Specialist
Robert Sugarman, Board Counsel
Peter Strong, Fund Actuary

FIAC MEMBERS PRESENT:

Brian Smith, Chairman
Robert Kowkabany
Craig Lewis, Sr.
Rodney Vanpelt
Tracey Devine

CITY REPRESENTATIVES PRESENT:

Jason Gabriel, General Counsel
Steve Durden, Office of General Counsel
Mike Weinstein, City of Jacksonville
Anna Brosche, City Council Liaison
Joey Greive, Fund Treasurer

GUEST: Dr. John Pertner, GAPublic Solutions

Denice C. Taylor, FPR
AAA Reporters
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SPECIAL MEETING

April 10, 2017 9:05 a.m.

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CHAIRMAN SMITH: We'll go ahead and call the meeting to order.

I'm Brian Smith. I'm Chairman of the Financial Investment Advisory Committee. And today we're having two meetings in one. The Financial Investment Advisory Committee is convening now.

And then Richard, as Chairman of the Board of Trustees, if you would go ahead and call your meeting to order as well.

CHAIRMAN TUTEN: Yeah. Call to order.

CHAIRMAN SMITH: With both meetings now called to order, Richard and Tim and I decided that I will go ahead and chair this portion of the proceedings. And we'll start out with a public speaking period. So whoever we have signed up for public comment.

CHAIRMAN TUTEN: We have one, Mr. Chairman. Mr. John Winkler. Come on down.

DIRECTOR JOHNSON: Right up here, John, so we can see you. Good morning.

MR. WINKLER: Good morning. John Winkler, 2515 Oak Street.

I was present at the presentation on Thursday. And for those of you who weren't there, those of you who were there, at least in my mind it came off as reminiscent of nothing so much as a timeshare sales presentation.

The biggest difference between that presentation and someone trying to convince you to purchase a week in Gatlinburg for the rest of your life and your children's lives and your grandchildren's lives is that there's no rescission period on the buy-in on this particular deal.

And in your case, your particular case, it's as though you've gone into the presentation with your life partner, the City Council, and now the salesman is telling you that only your life partner is going to be able to ink the deal. You no longer have the right to decide whether or not we're going to jump into this plan.

And while it may seem as folks are sitting there and they're looking at 35 colorful slides and being told about wonderful potential projections that your time share is going to be the best financial investment that you could ever make in your lives or your children's lives, the truth of the matter is in that the cold light of day, you're probably going to decide that going to Dollywood every single year for the rest of your life is not such a great idea. And that's why you have a right of rescission in the ordinary case with a deal like that.

That's why people have to slow down. They have to consider all of the numbers, not just the numbers that they're being presented at a fancy presentation.

That's why you folks have a fiduciary duty. That's why you need to exercise your fiduciary duties. That's why you have the board of advisors that you have. That's why you have consultants that you have. Because obviously, at least in this case, for reasons that we don't really thoroughly understand, the interests of the salesperson and your interests are not necessarily identical interests.

The other thing I want to make absolutely clear about what you're being told in terms of the present value of a future tax, even Mr. Weinstein wound up admitting at the meeting on Thursday that it isn't real money.

Well, it not only isn't real money, it's not even a real asset. It's not a real obligation. It doesn't even rise to the standard of a handwritten IOU. It's not like a zero coupon bond. It's not a promise that in the future someone will pay you that amount plus whatever the amount it was discounted by. It's not a promise that it will earn interest.

All it is, is an assignment of something that you would already have a right to, which would be a percentage of the proceeds that would come in from this tax starting in the year 2031.

The statute makes it clear, the only thing that can happen with the proceeds of this tax is that eligible plans receive a portion of that tax. It doesn't even designate that the tax has to go to an unfunded liability. It's simply a stream of revenue that winds up going into eligible plans.

So whatever that amount happens to be, once the proceeds are finally coming in, that's what it is. There's no guarantee that it's going to be a certain amount. There's no guarantee that if the tax growth rate doesn't meet anticipations, that someone will make up the difference.

There's not even a guarantee that if, for example, they applied $50 million of present value in the coming budget year, that come the year 2031, there will even be $50 million going into the plan.

There's absolutely nothing in terms of any kind of -- let alone a third-party guarantee, not even a guarantee from the city that a particular revenue stream is going to be available.

So given that it isn't even an asset, I question whether or not, while the city may have the right, and they say they have the obligation under Florida Statutes, they haven't actuarially recognized and to apply it in a certain manner, the truth of the matter is that it's not real for GASB purposes.

It's not real for any purposes that are going to matter to this Board in terms of performing its fiduciary duties to guarantee that the benefits that are supposed to be there for your members aren't going to be there.

MR. BROWN: Mr. Chair, we've reached the three minutes.

MR. WINKLER: Thank you very much.

CHAIRMAN SMITH: Thank you.

Are there any others on the list? Okay. Great. Let's move on.

I wanted to talk a little bit about the procedures for this particular meeting. We're going to hear from subject matter experts. We're going to hear from the City of Jacksonville. We'll have civil and spirited discussion, I'm sure.

Once we get to the point where all the voices have been heard, the Financial Investment Advisory Committee, which I chair, will come to a recommendation via a motion. Once our recommendation is ratified, we will make that recommendation to the Board of Trustees, who can then have additional discussion and make the final determination.

And at this point I'm going to turn the chair -- I'm sorry -- the floor over to Tim Johnson.

DIRECTOR JOHNSON: Thank you, Mr. Chairman.

So in terms of housekeeping, as you can see, there's a lot going on in this room right now. We've convened two bodies: The FIAC, the Financial Investment Advisory Committee, chaired by Brian, and the Jacksonville Police and Fire Pension Fund, chaired by Rich Tuten.

We've come together in an effort to fulfill our duty, which is to give comment relative to the impact the proposed ordinances will have on the pension plan. We've accommodated council's tentative time line by scheduling the meeting here on the 10th so that we can have our impact statements ready and submitted to council in time for tomorrow's public hearing at council.

I'd ask that everyone who speaks be as articulate and as clear as they possibly can be because our meeting is being recorded by our stenographer, so every word will be captured. So please take your time, articulate, so she can grab everything that we have to say.

Hopefully everyone who wanted a copy has gotten this packet, and if there's anyone who doesn't have a copy who would like one, we can get that for you. So just raise your hand and my staff will get a copy of this to you.

There are several documents that are combined in this. It's over 80 page. And you'll find in it a copy of the report by Dr. John Pertner, municipal finance advisor. His report is the first document you'll see. There's an -- and this document, by the way, analyzes the Better Jacksonville Plan payment of the surtax over the past 16 years, and in it he proposes a methodology for projecting it on into the future as well as a rate.

Behind that you'll see an experience study performed by our new actuary, GRS, specifically, Pete Strong, where he's analyzing the payroll growth rate based on actual recent experience.

That's followed by three impact statements. One of those, I expect, will be approved, but the bodies will have three options to consider.

And, finally, there is a 30-year projection of the impact of this ordinance on the plan. That too will be covered by Pete Strong, the plan actuary.

We'll have plenty of time, as Chairman Smith said, for spirited debate and discussion. I think all of our speakers who will be using this podium would welcome your questions as they go through their presentation, questions by the members of these two bodies. So feel free to ask questions of our experts as we go through.

Other than that, I cannot think of anything else that we need to cover at this point. We will have opportunity for other discussion relative to public comment that might also be submitted to council before its deadline next week. But for today, our focus is on the actuarial impact statement.

So with that, Mr. Chairman, Bob Sugarman is next on the agenda. Through you, I'd like to turn it over to Bob.

CHAIRMAN SMITH: Certainly.

DIRECTOR JOHNSON: This is our new attorney, Bob Sugarman, of Sugarman and Susskind, and he's got some comments on the duties of these two bodies relative to the law.

MR. SUGARMAN: Good morning, Trustees and members of the committee.

The city has referred to us two ordinances. By them referring the ordinances to us, it obligates us to perform two tasks. One we're going to do today and one we're going to do later this month.

Today's task is mandated to us by state law, and that is when any change to the benefits of a pension plan is proposed, as is proposed in the ordinances, we, as the administrator of the plan, the Board of Trustees, are to provide an actuarial impact statement to the City Council for them to consider.

They're not bound by it, but they can give it the weight and the importance that they deem appropriate.

Our next task later this month is required by the city code and the city charter, and this is for the Board of Trustees, with the advice of the committee, to comment on such ordinances. That is not on the agenda for today.

The goal today for the committee is to make a recommendation to the Board of Trustees on the actuarial matters that effect the impact statement. So the Board's role is considering that recommendation to adopt a statement of actuarial impact.

So we have a two-step procedure here. The committee is charged with advising on actuarial matters. Actuarial matters certainly are at the heart of an actuarial impact statement. So they must first make their recommendation to the Board.

The Board -- that's a charge that they're given by city law, and by state law, the Board is charged with the responsibility of issuing the actuarial impact statement. Our goal is to accomplish both of those things today.

So what should guide both the committee and the Board? Several things.

First, of course, law, as expressed in state statutes, the city charter, and the city code of ordinances. You should also listen to the advice of your consultants. You should decide what is in the best interest of your participants and beneficiaries to provide them with pension security. Your goal is what's best for our participants and beneficiaries.

What should not guide the Board?

Well, first, there should not be an incomplete deliberation or decision process. We are trying to meet this schedule set up by the city. The city's our partner. They've asked us to act within a certain period of time. We are trying to do that.

Tim has pushed your professionals as hard as he could and as hard as any of us have ever been pushed in our careers. I'm not sure if Tim is the ringmaster of a three-ring circus with an economist, a lawyer, and an actuary in each of the rings, or if he's a lion tamer. But he has set and pushed our agenda. We will have for you what you need to make a decision today. We are ready to advise you on today's tasks.

But some of that information just came into your hands. Some of it was just done over the weekend or late Friday. It's important that you be comfortable with the decision you make today and understand the decision you're going to make and everything that we're going to tell you.

If you're not comfortable with making a decision today or have more information that you need, then maybe we can't come to a decision today. I encourage you to do so. We're ready to advise you, but if we can't reach a decision today, then we'll meet again soon, as soon as we can, and get you the additional information you need to make a decision today.

The things that you should not be guided by -- as I said, you should be guided by the law and what's best for your participants and beneficiaries and the advice of your professionals.

You should not be guided by the impact on the city. The city and its financial affairs and the taxes that its taxpayers pay are looked out for by the elected officials in their administration. That's not your job.

You shouldn't be guided by the impact on the unions. They have elected leadership and the role given to them by state law to look -- and they are very able to look out for themselves and understand this.

You shouldn't be guided by the impact on the collective bargaining agreement or a proposed collective bargaining agreement except for the fact that the collective bargaining agreement gave us a role to review this proposal.

And you should not be guided by the effect the proposals will have on future hired police officers and firefighters. They're not yet hired. They're not yet participants or beneficiaries of our fund.

You should not do something just because the city and the unions want you to do it. If you walk out of here today and said, "I did this because the city wanted me to," then you haven't done your job.

Now, the proposed ordinances in broad strokes increase and preserve the benefits for the current participants in our plan. They place future hires into another plan. They will not be our participants and beneficiaries. We will not be administering or advising that plan.

It will change the funding schedule by imposing a sales surtax in 2030 in place of current funding arrangements. And it will set minimal liquidity levels so that we will have the money to pay our bills.

The actuary will explain the details of those to you further, but those are the broad strokes. We now need to produce an actuarial impact statement.

The actuarial impact statement estimates the costs of these changes so that before a city legislative body through the City Council makes a change to pension benefits, they know what it's going to cost from the people who set the costs, the Board of Trustees with the advice of the committee.

Specifically, the actuarial impact statement will show how the proposed changes will affect the city's contribution and our unfunded liability.

But the impact statement, like our annual valuation, must be based upon assumptions. Like our annual valuations, it's an estimate, a guess, a projection, as to what the pension plan will cost and what its unfunded liability will be, a projection and a cost and an estimate and a guess produced by some of the most educated and rigorously tested people in the world: Actuaries. Actuarial exams make bar exams look like a sixth grade reading test. That's how tough they are.

So those assumptions are going to take up most of our time today. The committee needs to recommend to the Board the assumptions that they should use. That's the test, the task, because the Board of Trustees sets the assumptions.

Three assumptions will take most of our time today. First will be the amortization schedule for the added liability resulting from increasing the benefits. I'm going to speak about each one of these separately.

So the question is: If benefits go up, liability goes up, how is that liability going to be paid for?

The second one is the rate of payroll growth for promising people pensions when they retire, which is a percentage of the amount of money that they're making for the last couple of years they've worked. How much is that going to be? That's how we know how much of a pension we're going to pay.

And the third thing is the growth of the estimated surtax revenue, because state law says that the city can use that to reduce its contribution. That means we need to deduct that from the annual required contribution and we need to know how many to deduct, how much is that amount. We're not going to get that money for 13 years, so we need to have -- but they can take the credit now.

So we need to know how much should that credit be. And in order to do that, we need to have some idea what the taxes are going to be each year starting 13 years and each year hereafter.

So let's start with the amortization schedule because that's the easiest task that you have. If the city chooses to use -- and it's the city's choice, not yours. If the city chooses to use a sales tax surtax to fund an underfunded pension plan, then the state law requires that amortization period to be 30 years.

The actuary may comment on the appropriateness of that and whether or not it meets actuarial standards, but that's the law. So the 30-year amortization schedule, although you should recommend one, you don't have any wiggle room on that one. It's a state law. 30 years.

The second one: The assumed payroll growth rate. By the way, I'm listing these in terms of difficulty.

The assumed payroll growth rate. The state law tells us that we have to have this payroll growth rate -- remember, because it tells us how much the pensions are that we're going to pay, and that's the liability -- be based on a ten-year look back and look forward, considering all of the workers in the classifications covered by our plan, whether or not they're in our plan, meaning, what is the payroll growth rate going to be; how much do we think they're going to make; what kind of raises are going to go to all police officers and firefighters, not only those who are in our plan and will enroll in our plan through the end of this fiscal year, but also those hired on October 1st and thereafter who will be in another plan. The entire cohort of police officers and firefighters must be considered.

That's what the state law tells us. Basically this ten-year look back, look forward of everybody.

The city charter tells us that we must base these assumptions on the most recent experience study done by the Board's actuary, not by the city actuary, not by someone else. By the Board's actuary. And our actuary has done that. He's done an experience study for you. Peter Strong will explain that to you.

Now, that will lead to a recommendation and a conclusion of the payroll growth rate recommended to you by your actuary.

If his recommendations differ from those desired by the city, then the city should, one, show you a reason -- I'm sorry. The city can do one of several things. One, they can show a reason to your actuary, because the law says the Board's actuary, why his experience study should be modified if the city disagrees with the experience study and the facts therein.

Or the city can show why, based on the

experience -- on the actuary's experience study, a different percentage should be used.

In other words, let's say the experience study is a recitation of fact. This is what happens. This is what's going to happen.

Your actuary's conclusion will be, that supports a growth rate of so and so. The city can either say, those facts aren't right so we think you should change your opinion, or, okay, we accept those facts, but using different methods and calculations and procedures, we get a different growth rate off of those facts.

You can't ignore your actuary's experience study just because the city wants you to. But you can, you can, revise your actuary's recommendation on growth -- on what that growth rate is if evidence is presented to you by the city that the growth rate should be different, that the facts lead to a different conclusion, and you find that that evidence is substantial and competent.

I want to make sure I'm explaining that well. You're going to hear later that the Office of General Counsel and I have looked at the same law and interpreted it differently.

This -- the analogy to this is that the city and your actuary may look at this experience study and interpret it differently. And your actuary will explain the procedures and the methods he used to arrive at his interpretation. And if the city wants you to come up with a different number, they can explain, well, here's the way we did it. And then you have something that you can deal with and measure as best you can.

You can't say, we're taking what the city wants just because the city wants it. You can say, the city presented to us substantial competent evidence, reasons, that were convincing to us that we should take the city's number. That would be the city's burden if it disagrees with the rate.

Now the most difficult issue: The value of the surtax.

The Office of General Counsel and my firm have different opinions about who values the surtax. OGC says the city values it. I believe the Board values it. Remember that the present value of the surtax lowers the city annual payment. The higher the surtax's value, the lower is the city's annual contribution.

The present value, which is what the city can use to lower its contribution, depends on how much the surtax grows each year from its last known value. It's last known value was 2016. The income from the surtax is known for last year. It then depends on how much is it going to grow each year from that value.

And then once you know how much it's going to grow at a given point, the question is how much is it worth today? How much do you discount that future assumed number to today's dollars? Then it has to be brought back to present value because a dollar in 2030 is worth less today than a dollar in your pocket today.

Now, the differences in our opinions arise from an ambiguous statute, which says that the city shall apply the value of the surtax to its contribution.

Our opinion is that both the committee and the Board have the authority to value it, and that they should do so based on an independent opinion that is outside your personal expertise, that you're going to -- that you receive from an independent expert.

At the last meeting, the Board of Trustees authorized the hiring of an expert. Dr. John Pertner is here. He is your expert. You're going to hear from him today. You've hired such as expert.

But we believe that you, the Board of Trustees, with the advice of the committee, should set it because, first, it's akin to an asset of your plan. It's something that's used to value the amount of money that comes into the plan. If it's akin to an asset of the plan, then it's yours and you should decide how much it's worth.

Secondly, the city charter says that you have to apply all professional standards and requirements for actuarial analysis. Your expert on that issue, Peter Strong, will tell you what the professional standards and requirements are for actuarial analysis of this revenue stream.

The charter likewise tells that you should maintain the pension fund on a sound actuarial basis. So you have to ask your actuary, is this valuation method sound that Dr. Pertner is recommending? Is there another one? Is the city's sound?

Also, you should set it because the law makes clear in Chapter 175, 185, and the city laws make clear that the Board of Trustees is solely responsible. I urge -- I emphasize the word "solely" for the administration of the fund. And because unless, in our view, the city setting by ordinance this valuation conflicts with state law, the city charter and the city code.

Further, the city has an irreconcilable conflict in setting those numbers. Each additional dollar of assumed growth that the city tells you this is worth is one less dollar that they have to pay into the plan now.

They will pay in what the plan costs. That's the way pensions work, but it's less they'll have to pay now. And each additional dollar of the city's projection, if not realized, is additional money the city will have to pay later, plus interest.

However, there are two ways to resolve the difference between our firm and the General Counsel's Office. The first is that the city can show you evidence and methods that support its growth assumption.

Dr. Pertner will show you, this is what I believe, this is how I did it, these are the methods I used, this is the evidence I relied on.

If the city can come and tell you the same thing and can convince you that their projection is better than Dr. Pertner's, then you can rely on the city's projection.

It can't just be because the city wants it and says it. The city has to essentially prove it. And the city does not need to show that Dr. Pertner is wrong. They only need to show why they are right, because there can be more than one way of doing this.

Dr. Pertner has a way he's going to recommend to you. If the city has another way, they can show it to you. And if you feel that the city's evidence, methods and presentation are substantial and competent, you can base your decision on it. You, of course, ask your expert to comment on it, but it gives you something that you can grab on to, that you can base your decision on other than, this is what the city wants.

The second way to resolve the conflict is you can accept and rely on the advice of the Office of General Counsel.

Friday evening they issued a memorandum after Steve Durden and I talked in the afternoon. Our communication and cooperation with the OGC is excellent, even though we may arrive at different conclusions. That's what lawyers do. They may have different conclusions, but they talked them out ahead of time before they bring them to their client.

The OGC says that only the city has the right to value the surtax, and I hope you'll hear from the OGC and they will explain their opinion to you.

Now, why do we disagree? There's an ambiguous state law. It says, as I said, since the city can apply the present value of the surtax to reduce its contribution, it doesn't say who determines that present value.

The OGC says the city has the right, the legal right, and interprets the statute that says the city must value it for reasons that Steve Durden or Jason will explain to you.

While I don't agree with their opinion, I can tell you it is well reasoned and it's a reasonable interpretation of an ambiguous statute.

While it does -- while their analysis, which is a good analysis, done very lawyer-like and it's done very well, doesn't convince me to change my opinion, I believe that our opinion is more appropriate for you to use.

But while it doesn't convince me to change my opinion, if you are convinced by the general counsel's office opinion rather than mine, you should follow the general counsel's opinion. It doesn't hurt my feelings. It's written by an expert and experienced lawyer, and the OGC is also your lawyer. You have the luxury of having two lawyers with two different opinions, and you can rely on either one.

Since the OGC is also your lawyer, the plan says that you are protected by following and relying on the advice -- it's in the pension plan that you're protected, you, the trustees, are protected by relying on the legal opinions of your lawyer, or lawyers.

So my job -- when I interviewed and talked to the Board of Trustees, and the same with the committee, my job is to protect you. Your job is to protect the participants and beneficiaries.

So if you ask me, are you protected by

relying on the opinion of the general counsel's office, even though it differs from mine, the answer is yes. I would prefer that you follow mine, but my wants aren't important here. What's important is what makes the best sense to you.

Now, you have an important role in this process of Jacksonville Pension Reform. State law gives you a role that we're going to fulfill today, and that's initiating an actuarial impact statement with the advice of the committee.

The state law, through the legislature, the people of Jacksonville, in their charter, and the City Council, in their ordinances, have given you a role in setting the assumptions and the basis -- which will be the basis of your actuarial impact statement, because they all say you have to use sound actuarial principles in one way or another.

And when we get to our next project, commenting on the ordinance, again, the people of Jacksonville, in their charter, and the council, in its code, and the unions, together with the city in their collective bargaining agreement, have all given you the duty to review it. That's work that still lies ahead of us.

So I suggest to the two chairman that you listen to Dr. Pertner, that you listen to Peter Strong, your actuary, that you listen to the executive director on the administrative matters involved, and that you listen carefully to whatever the city chooses to present that may be different from what they tell you.

And then after you've carefully considered that, following what's best for the participants and beneficiaries, our only goal is, first, Brian, to ask the committee for a motion recommending the actuarial assumptions and methods to be used in issuing the impact statement.

And we're going to have joint discussion after everybody else who has a report wants to talk to you. After all -- everybody is talked out and have had a chance to speak, then Brian will ask the committee for a motion recommending the assumptions and methods to be used in issuing the actuarial impact statement.

Assuming we can get enough votes to pass something, the committee's task will have ended and Brian will adjourn the meeting.

Rich, it then goes to you, and you will ask your Board of Trustees for a motion to adopt a particular impact statement, and as you see, there's more than one, based on the assumptions therein, considering, but not bound by, the recommendations of the committee.

I suggest to both chairman that you restrict the deliberations and the comments to those issues, actuarial assumptions and actuarial impact statement.

The comments and the reactions to the overall proposal will be fully discussed later this month when we consider our comments and recommendations to the council on the very comprehensive ordinances that establish pension reform. That's our general task for later.

Our specific task today, Brian, is to get a recommendation on methods and assumptions that is the basis of the actuarial impact statement. And then, Rich, to get a motion adopting an actuarial impact statement.

That is our work for today. I'll be available throughout the meeting, of course, to advise you. And, Brian, I suggest you now ask Dr. Pertner -- unless there's any comments or questions on what I have to say.

CHAIRMAN SMITH: Yeah. Are there any questions for Bob?

MR. BROWN: I have one question.

When you -- and we may hear from general counsel explain this.

When you say that the city -- it's listed in the law that the city is charged with determining that surtax, why do you interpret -- or the assumption rate, I'm sorry.

Why do you interpret that to mean us as the Board of Trustees versus the actual City of Jacksonville?

MR. SUGARMAN: The law says the city will apply the present value of the surtax to reduce its contribution. It doesn't say who values the surtax. I believe that it is the job of the Board of Trustees with the advice of the committee to value it, for the reasons I expressed.

OGC believes that it is the duty and the right of the city to do it as is set forth in the proposed ordinance for the reasons that Steve Durden will tell you.

MR. SCHEU: Bob, I have a question too.

MR. SUGARMAN: Yes, sir.

MR. SCHEU: Would you explain and maybe Jason could also, as it relates to the diverging opinions of our two counsel, does the charter give us any indication of the priority of those opinions? And maybe both you and Jason could speak to that.

MR. SUGARMAN: I believe that you can follow either one. Jason might have a different -- different answer. Because the charter gives us the right, as your pension counsel, to advise you on pension matters, we believe the valuation of assets, as part of your fiduciary duty, is a pension matter.

CHAIRMAN SMITH: Did you want to address that question, Jason?

MR. GABRIEL. Yes. Thank you.

Jason Gabriel, General Counsel.

And as Mr. Scheu pointed out, and it is true, there are two opinions you have on this surtax value issue. And the charter does prescribe that at the end of the day, the Office of General Counsel's opinion is conclusive.

To the extent there's any conflict between attorneys or between agencies, et cetera, the opinions of the general counsel are conclusive.

So they are binding on the entire consolidated government, to answer that question.

Just briefly on the sales tax value question and going to Mr. Brown's apt question over there, the pension surtax value is the domain of the city because, A, the city is a taxing authority; B, we have -- as you know, this is one big chunk of the liability and one big chunk of this whole program that we're presently trying to resolve through the 14 ordinances.

However, there are two other funds, as you know. There's a corrections fund and a general employees fund. And so if we got in the business of different boards adjudicating on different taxing rates and values, then we're going to have conflicting values as we submit those things to the Division of Retirement, and as the council eventually adjudicates on what taxing rate should be applied for purposes of resolving the pension issue.

So in other words, what I'm saying here is the city has provided you with a reasonable and rational rate, and that's what your actuary is now directed to calculate and analyze in conjunction of all the other assumptions that you-all have decided to look at.

And that is what is being requested and what needs to be conveyed to the Division of Retirement and to the City Council.

Now, to the extent anyone has any editorial commentary or commentary as to the rationale of, in this case, the 4.25, that's absolutely fine to do through your -- through the system that we have where you're going to provide review and comment on the ordinances.

So you have essentially two items here that you're going to be looking at. Today the focus is on the actuarial impact statement, but you are going to have the opportunity to review and comment on the ordinance as a whole, and that is an opportunity to provide any commentary on why one may believe, if that's even the case, that the 4.25 is not a reasonable, rational rate to use.

So I hope that answered the question, Mr. Scheu.

CHAIRMAN SMITH: Any other questions?

MS. DEVINE: I have a question.

Is there any precedent in terms of the disagreement here and the priority of the city's counsel versus the Board's separate counsel that they got in addition to the city's counsel?

Is there any precedent in terms of when there's a difference of opinion in that regard, how we bring that together?

MR. SUGARMAN: There is a precedent factually, and that is in the matter of former Executive Director Keane's pension, which is presently a matter of litigation. That -- that very issue is an issue in that case. We're not representing the Board. The OGC is representing the Board.

But that very issue has been raised and that's when I believe it will be resolved.

CHAIRMAN SMITH: Any other questions?

Sure, Mr. Gabriel.

MR. GABRIEL: Sure. And this comes up from time to time and there's a host of binding legal opinions by the Office of General Counsel between other agencies actually, between the city and the Duval County School Board, et cetera.

But the most recent one -- and I'm happy to provide it, I can email to you-all after the meeting -- is OGC Binding Opinion 16-01. It was issued about a year ago, and it really actually hits right on the issue of the binding legal opinions of the Office of General Counsel in the context of the city and the police and fire pension fund. And I can provide that to you.

MR. SUGARMAN: And the opposite view, which is going to be resolved by the court, is that 175, 185 says that the Board of Trustees has the sole responsibility for administering the plan and that they can use the city attorney's office -- that's the city's attorney -- but they can also hire their own lawyer. They have the right to hire their own lawyer.

This doesn't need to be worked out today. There's really good lawyers on both sides of the John Keane case, and that case -- that will give the answer to your question, from a court ruling.

CHAIRMAN SMITH: Before we recognize Dr. John Pertner, Tim, would be introduce him and explain his role in this process.

DIRECTOR JOHNSON: Sure.

So the members of the Board will recall that at our last meeting on March 17th, I was directed to engage a municipal finance advisor to take a look at the surtax growth rate, to identify that person, to have that person analyze the history of the Better Jacksonville Plan, and to bring a recommendation back here to this Board that would ultimately resolve or at least contribute to the resolution of the surtax growth rate.

I did my due diligence. Identified Dr. Pertner. Engaged him shortly after the Board meeting, maybe a week or so after the Board meeting. So it preceded the opinion that came from the Office of General Counsel. That opinion arrived on Friday evening, and John has been at this amount a month, analyzing historic data and coming up with a recommendation for you today.

He's part of GAPublic Solutions, has a great reputation, great credentials. I'll give him the opportunity to give you a little bit of background on what he's done. And you'll find his report as the first report on the top page of the packet. So with that, I'll turn it over to Dr. Pertner.

DR. PERTNER: Thanks, Tim.

It's ending up to be a long day, so I will make sure if I'm not good, I'm entertaining. How's that?

As Tim said, he engaged me about the 20th of March with two things: Determination and projections. Take a look at the history of the surtax that's been present in Jacksonville since -- I want to say March of 2001, and as presently in the form, and then what happens once this evolves into the pension liability surtax. So it's going to be renewed from one surtax to another.

And my background is organizational development and leadership. My master's degree is in math, so statistics play a good, solid role. I came along during the era when big data tried to help people make decisions. And every time I'd talk to a group of people, I'd say, if you're going on a trip, what's the first thing you've got to know?

Everybody will say, oh, where are we going? How long is it going to take to get there? But really what you know is where are you now, because if you get out a map and you can't find out where you are now, you don't know which direction to go to get where you're going.

So that's pretty much where we're at now. Where are we now? What his history defined for us already? Historical data really has no room for gaps in the review. In other words, at the beginning of the surtax period, that fiscal year 2001, it's an incomplete year. We had, what, seven months? And in 2017 you have five months with the real data there. So I concentrated on only those full years, 2002 to 2016.

What's the data look like? What -- what happened during that period of time that could give good influence over the numbers that showed?

Now, Tim, do you have a projection there?

DIRECTOR JOHNSON: Yeah, we do.

Stephen, could you help me bring that slide up. It's the --

DR. PERTNER: I won't read the whole thing to you, but there's sections on each page that are worth paying attention to.

DIRECTOR JOHNSON: Is there a particular page you want to go to?

DR. PERTNER: Well, let's start at the bottom of page 1.

As Tim and I talked, he said, you have to understand, the determination is going to be of a rate on the surtax that can be projected out to 2060. And I said, Tim, you know, that's 43 years from now. He said, yeah. I said, where were you in 1974? Because that was 43 years ago. Think what's happened in your lives since 1974.

Even if some of you can remember 1978 when you tried to buy a house, what was the interest rate? What is it today? These are the historical things that these numbers probably aren't going to tell us, but we need to think about them when we see them.

You want to go down to the next page.

By the way, in 1974, I had hair down the middle of my back and I rode a motorcycle. I was a senior in college.

And how old were you, Pete?

MR. STRONG: Two.

(Laughter)

DR. PERTNER: You've come a long way.

I want to pay a couple of -- close attention here, and you have this in your packet at the bottom here.

Looking back 43 years to 1974, many variables that affected the collection of surtax, including economic recessions, are more than likely going to occur over the next 43 years.

In the past 43, 11 of those years were including specific economic downturns, generally declining economy or recovery, and 25 percent of the time we were involved in trying to dig ourselves out over the last 43 years.

The discretionary tax has experienced four years of negative annual returns itself. That's 28 percent of the existence of the tax has been spent coming up from a negative value.

Now, we say negative value. That means negative growth over the previous year, or positive growth over the previous year. It's more a strength of performance, if you will, this year over last year moving forward.

With that in mind, historical review focused on the most recent recession with the decline that began in 2006 to 2013. So logically you look at the numbers. Where does it go?

Immediately this is where my attention comes to. We're going to have economic times we'll have to live through in the next 43 years. All right? Now we've got to come up with a determination and a percent that we can apply that's going to work for 43 years.

It's not going to happen. We can come up with a variable and a factor that can be used for a period of time, and as we look -- go to the next page. Coming up on a graph, I'll point out to you the variables -- back one.

What was used to do the calculations for this is a compound annual growth rate. The important part of this, and I fill a lot of this in with background information and explanation, but the compound annual growth rate is a geometric average that represents one consistent rate at which an investment or revenue return in this case would have grown had the investment been compounded the same each year.

It's not an average of averages. You start out with the end rate, which if I did the whole thing, it would be 2016. We know what that end rate was. We know what the end rate was for 2002 compounded by the number of years. That's your rate.

So as you start to focus, you realize trying to do a projection even for 16 years is difficult.

So, again, my focus, how well does Jacksonville recover from a recession? And we're going to get to that in a second. Next slide.

Here's what we looked at. This is increase over previous year. Those are actual numbers. And, again, whole years only, 2002 to 2016. We see a dramatic rise in the second full year to 13 percent.

I moved to Florida in 2004. Moved to Monroe County, worked with Monroe County. They said it's the worst hurricane season they ever had. I'm from Ohio. It was an adventure for me.

But why did this show a bump here? Monroe County, and I don't know if this is true, but Monroe County provides tax relief on home repair things. Home Depot, things like that, after a major storm event. Was that the case here? Did you have a major storm event? Or was this just a good revenue year?

Because look what happens the next year. The increase is less than half. Now, it's an increase, it's a positive flow, but it's half the increase, half the strength of the year before.

The next year you pretty much know where we're heading, right? 2007, down to the bottom, it has a negative value of 2009 of a minus 9 over the performance in 2008. There's four years of negative value there.

We start to see a rebound in 2010. That was a negative 0.6 of a percent over 2009. However, it's a lot less drop. So now you're seeing recovery.

If you draw a line right there as evidence of recovery starting, and draw the line to right there saying you've made it out of the recovery period, just the same as you could come back here and say, we're on top of the world, whoa, what happened here? Is there a reason for this to occur? This could have been the first light of a decline. Again, not sure what happened hurricane-wise and all that sort of thing in 2005.

The interesting thing, too, once you get -- you're out of the woods here in 2013, '14 you have a nice 6 percent increase, but look what happens in '15. It falls off. It's still a good increase, 5 percent, but it isn't the same strength as the previous year.

'16. 4.6 percent. These are calendar year -- surtax is done in calendar year, correct? So that's what this is based on. 4.6. Not a bad return, but it's less then the previous year's strength. Less than the previous year's strength.

Is this a tip of a curve? When you look at numbers like that, those are questions that run through your mind.

Did I see it coming here? Is it happening here? Don't know. Remember, every seven to ten years we have a recession. That was the bottom of the last one, 2009. This is 2017.

I -- you know, I'm not going to say it's going to be a disaster. I'm just telling you to be on the lookout for it and make sure you account for it moving forward.

The red line -- oh, the main line coming straight through here is an interesting thing too. This is a line of regression. And you can get an R-squared value on that, and the larger the number, the more variables are taken into place on this line.

And what you'd really like to see in a good line is one that lies right down the middle on the data, and this one does, because look it the variability. It has to account for those big gaps, and there's where the line exists. And it's somewhere halfway between zero and 5 percent.

Questions? Just wave if there's anything.

The red squares going across are the compound annual growth rates calculated 2002, beginning, end date 2016, and compounded by the interval, the number of years.

Each year -- I calculated one for each year and then plotted it against the actual return. Little more within that -- I hate to use the word smoothing, but it's a leveling of an interest rate that you could project forward.

This is 3.34 for that period from here to here on that recovery from the recessionary period.

Okay. Next.

I talked to Tim one day and I said, what could affect the revenue here in Jacksonville that may be not on our radar? And we talked and talked and talked. Hurricanes obviously came up.

And being from Ohio, I said, what if the Jags leave? What will that do to your revenue? Art Modell moved the Cleveland Browns out of Cleveland in the middle of the night and nobody knew it. By brother cried for weeks.

The bottom line is, the NFL is a business and they're looking for markets that can support NFL teams and earn money. That's what they're all about. That's why the Big Ten went into New Jersey.

So we want to keep that in mind too. There are economic things out there that are totally out of our control or knowledge level, for that matter.

The calculation -- this is just a calculation of what the annual growth rate would be, end value, start value, exponentially by the periods. And then this is an example of where you plug the values in. In this case, in 2006, for the reported amount of $73 million and projected against -- what did I do that one on? Against 2013. The corrected value was a negative 1 percent. So you can start to see how that changes.

We're down here in another example of the bottom of the recession compared to when you're out of the recession.

And that 3.3 represents the one consistent rate at which the investment would have grown if the investment had been compounded at the same rate every year. This is the reason why we selected the -- or I selected the 3.34, is that it was the beginning of the recovery compared to the end of the recovery. That would be how well you responded, the City of Jacksonville in revenue with respect to recessionary times.

This is a -- we use this example a lot when you talk about the effect of compounding. You know, you hear $80 million, hear $150 million. But what happens if you start with $1 million and kind of follow it through the years?

Annual reported range in 2003 was 3.08 percent, the effect on a million dollars. Now your million dollars is worth a million 30 thousand. And you see how that moves forward through 2015. Now you're up $200,000 in three years. It looks good. That's a compounded -- that's the effect of compounding.

And the effect runs the other way on negative years or poorer performance. That compounding -- and, again, this is just for experience or an opportunity to take a look at things in a little simpler terms rather than the actual numbers we're dealing with.

But that million dollars, the effect of a million dollars in 2005 is compounded at 1.24. By 2013, when the recession had demonstrated improvement, the 2013 compound value was 1.23. It was actually $10,000 less than the value of that million dollars in 2005.

Move through it. You got to work your way out of it and get out. But, see, this compounding pulls you back to this period of time. You need to keep track of that as well.

You're going to run through negative performance and you're going to have to be some sort of concern about how long it's going to take to get you out of that. You can say -- maybe this is off task, but a lot of people would look at assumed rates. 7 percent. That will make it work.

We've run into some pension plans that are still hanging on 7 3/4 or 8.25. Well, you hang on that and you go into a negative period, now you're going to take a long time to get back out of that. Okay.

This is the application of 3.34, the determination at this point, and I was comfortable with the 3.34 as the percent that would be representative of the strength of Jacksonville's recovery. And I applied it to the actual 2016 value that was reported.

So by 2030, you're looking at $1.45 million dollars collected over that period of time. And this is -- this is during the surtax. This is for the general -- prior to the pension fund receiving this. This next page, we'll be talking about the pension liability bottle.

One thing I want to point out. We've seen what can happen on compounding negative responses and compounding positive responses and the effects of 43 years.

Anybody in this room believe we can come up with a number that's going to be valid in 43 years? No. We can get you numbers that will be good next year, this year.

Part of our recommendations are we -- doing the 3.34, when the revenue is posted, we update all the information, run the compound annual calculations again, the growth rate, determine where that places us and go forward with another one.

Yes.

MS. DEVINE: Through all this research, were you able to come up with a band that you felt more comfortable with that would give you a higher level of confidence that, while we can't know for sure that this bandwidth, if you will, this range --

DR. PERTNER: Yeah, I know what you're

saying.

Tim's task was determine a value, and later it became other options for you. So, I mean, if you're looking for a range, that would probably be whatever it is, wouldn't it?

Remember, when you do the compound average, you're looking at a start time and an end time, and then you're compounding that. So the longer that -- that period is, the less confident you can be. And you can see that with the body of what we saw.

So, yeah, I understand what you're saying. You know, so you're asking an upper limit and a lower limit off that 3.34?

MS. DEVINE: That would help provide some sort of a scenario analysis at least if we could get confident on the lower end --

MR. PERTNER: Sure.

MS. DEVINE: -- and even if we use 4.25 as the upper end, you know?

DR. PERTNER: Uh-huh. Off the top of my head, standing here, I would say since I based this on the beginning of real recovery and the point of recovery from that recession, the 3.34 would have been the representative amount in

2010, but I see what you're saying. Rather than me answer right now, I would probably want to dig through that some more.

MS. DEVINE: Thank you.

MR. PERTNER: Yes.

CHAIRMAN TUTEN: Go ahead, Rick.

MR. PATSY: John, and I apologize if you said this and I might have missed it.

But the recessionary period from 2007 to 2010 was the proverbial hundred-year storm. Is there a database that would take or allow you to go back into the 1990s and look at the recessionary time periods that we had then?

DR. PERTNER: Well, actually a simple Google will say recession since 1970 and it will tell you the length, the depth of it, you know, how long the recovery period was.

This last one, people are feeling the effects of that for quite -- years. So when they say this is the end of it, you try to find something out there, a demarcation where it ends, if you could find one here.

No, there's not a common, this is where it begins. If it starts here, it ends here, and there's some sort of light of recovery. At what point do you believe that light is a real light and not a train coming at you?

MR. BROWN: I would ask, with the Great Recession being the worst economic downturn since the Great Depression, how can we account for making sure that that -- that does not unduly effect this compounded average.

DR. PERTNER: My -- my opinion -- well, actually, the compound average took that into effect because it started with the first sign of recovery and went to the point where you were on solid ground.

The other side of that is -- actually, I forget where I was going with that when you asked the question.

MR. BROWN: This Great Recession makes up about, what, 40 percent of the time period that we have that we're looking at?

DR. PERTNER: From beginning to fully recovered?

MR. BROWN: Right.

DR. PERTNER: It does. You have to be conservative, then, when you start to look at rates of return, rates that are necessary for you to meet your obligations.

MR. BROWN: Rather than being conservative or liberal, I'd just prefer to be accurate based on obviously historical figures. You know, the best indicator of future performance is, you know, historical data --

DR. PERTNER: As long as everything is the same, yes.

MR. BROWN: Sure. And there are a number of things that could change. But if you look back over the last, say, 70 years, how does that -- how does that figure change, or how would it change?

DR. PERTNER: I didn't look back over 70 years because there's no revenue figures for that long. I mean, when you look at recessionary periods for 70 years, the economics alone affect the percent of how long it takes to get out of it.

And my grandma bought a house right before the Depression. She paid 1,200 bucks for it. So you can see how -- if we're trying to compare -- you know, we're going to have to put some sort of present value on it --

MR. BROWN: She paid $1,200 for it in, obviously, the time period, and since then we've had a --

DR. PERTNER: Sure --

MR. BROWN: -- tenfold increase in value of the money. The only reason I'm asking this is because it seems like when you're looking at 14 years, and my background is economics, when you're looking at 14 years here, there's a great percentage of this 14 years that is such an outlier in a given century that it would -- it would bring, you know, this average that we want to use down as opposed to looking at a much more longer term period where the affects of a great recession are smoothed down.

DR. PERTNER: That's -- yes, you've got a very good point there. Most of our time has been -- of this surtax has been in the middle of all this --

MR. BROWN: Regardless of the surtax, though, we know obviously that -- let's say we're not talking about the time period the surtax was there. We're just talking about the economy in general.

We know that over the last 14 years, when you include that Great Recession, this is not indicative of a long-term period. It is -- we've had obviously a worst growth rate in the last 14 years than you would have if you average, say, 50 years or 60 years. That's all I'm just bringing up, the point I'm bringing up to consider.

DR. PERTNER: Yeah, sure. I agree with you. I think when you look at the effects that we've just lived through and the amount of time that it's taken out of this particular surtax, where do you look?

MR. BROWN: Right.

DR. PERTNER: Where -- where are you confident that you've given yourself the leeway that's necessary? Where are you confident that if it's better than that, you're happy, and if it's worse than that, you can make it?

MR. BROWN: And so, Doctor, I would offer -- and I -- for me, you know, obviously my role is a fiduciary --

DR. PERTNER: Sure.

MR. BROWN: -- what the city wants, what the unions want, while I'm wearing this hat, they don't matter.

But I would say that this number that is used based on these 14 years does seem to be lower than I think an amount, if we had done a study over, say, 50 years.

CHAIRMAN SMITH: Give me just a second.

Mr. Weinstein had a question or a comment, and then we'll get back to you, Rich.

MR. WEINSTEIN: Thank you. Mike Weinstein, CFO.

I just wanted to make sure that everybody here understands what the ordinance says that's in front of council, that this number, whether it be 4.25 or any other number, will be reviewed every year. It's not a 30- or 60-year determination. It's going to be reviewed.

Last three years, 5.6 percent; five years, 4.8; seven years, 4.50 percent. The 4.25 will be reviewed every year. The present value will be recalculated every year. Every year we will get closer to that sum. So every year this will be reviewed.

This is a reasonable expectation of where we are today. If three years down the road it should be something less, it will be something less, determined by council. Recalculate the present value. It will be affected by the actuary. Another 30-year projection will be done.

So it's not like Better Jacksonville where we borrowed a billion and a half dollars at 5 percent and depended on it to make the debt service. This is a one-year determination. We had to make some determination to do the calculation. So it's adjustable.

So this was a great discussion, but it didn't have anything to do with the way the pension program will work. Every year it will be --

MR. SCHEU: Hey, Mike?

CHAIRMAN SMITH: Is that Bill?

MR. SCHEU: This is Bill Scheu. I'm sorry. I thought you were finished.

CHAIRMAN SMITH: Hold on, Bill. Rich had a comment first.

MR. SCHEU: Go ahead, Rich. I'm sorry.

CHAIRMAN TUTEN: Well, to address Mr. Weinstein, I get what you're saying as far as the rate and every year would come back and check it, but the mayor's plan is contingent upon the big picture. And the big picture involves a 4.25 percent rate going forward for the next 30 years.

And I don't want to say it's disingenuous to say what you're saying, but it's overlooking the big picture of the reason why we're going to have X amount of dollars over 30 years with this tax.

The reason why we can count the present value as X amount of dollars is simply because we've decided, you guys decided that, for that time period, it's going to be a minimum of 4.25 percent --

MR. WEINSTEIN: No --

CHAIRMAN TUTEN: And if it's not --

MR. WEINSTEIN: -- it could be -- it could be 3 percent in two years from now. We -- the city pays the ADEC. The city pays what the ARC used to be. Now it's the ADEC --

CHAIRMAN TUTEN: I understand that.

MR. WEINSTEIN: -- and it will be reevaluated by your actuary every year based upon what the council determines that growth rate should be. It's not 4.25 forever. It could be 2.5 five years from now. And it will affect everything. It will affect the payments and it will affect everything.

CHAIRMAN TUTEN: But the mayor is selling the entire plan based on that rate, is he not? Am I missing something here?

MR. WEINSTEIN: He's basing it on a

reasonable rate today because of the last seven years or so.

CHAIRMAN TUTEN: Okay. Well --

MR. WEINSTEIN: If it turns out to be different, then everything adjusts. Every one of your assumptions will be reevaluated. It's just like any other assumption that's made.

CHAIRMAN TUTEN: Well, where -- I agree with you. Show me the plan from the mayor where if it doesn't hit 4.25, that they have the numbers to show us what that will be in the future.

MR. WEINSTEIN: That has nothing to do with you. We pay the ADEC.

CHAIRMAN SMITH: Gentlemen, the city will get a full presentation period. And Bill had a comment.

Bill, if you'll go ahead with your question.

MR. SCHEU: Sure. I just had a question for Mike.

Mike, on that annual adjustment, I would presume that your position and Jason's position would be that the city does that. So the city has no obligation to make the adjustment. They just have the obligation to review it.

So is there any -- what my question is, is there anything obligatory in that or is it still at the discretion of what ultimately is the City Council, taking into account that the City Council -- every dollar it adjusts downward means that their contribution goes up.

So as Bob Sugarman said, there is a conflict. So what obligates the City Council under the proposal to make those adjustments?

MR. WEINSTEIN: The ordinance says a requirement by every October 31st, that the council review and determine what the growth rate should be for the following year. And all three actuaries -- all three funds would use that growth rate. It's a city decision. The city is the sponsor.

MR. SCHEU: So it's the city's decision?

MR. WEINSTEIN: Yes, absolutely.

MR. SCHEU: Okay.

CHAIRMAN SMITH: Okay. Dr. Pertner, continue.

DR. PERTNER: Thank you, Mr. Chairman. Next page, please.

Now, that's the -- that's the hard part. The easy part comes in on the projection. The 3.34 percent is a replication of the table we saw previously. This is what it turns into when it becomes the surtax.

The 31 -- it should be 132 million. 63 percent of that is 83, and the 2016 present value would be $30 million, 30.6.

And then this is the tail end of it for the total should 3.34 be valid over those 43 years, and I don't believe anybody in this room believes that's true. This is --

MR. SCHEU: Mr. Pertner?

DR. PERTNER: Yes.

MR. SCHEU: I have one other question related to the computations.

Is there any disagreement between the discount factor between you and what the city has done? Are there any -- are there any conclusions to be made with respect to the discount into the present value?

DR. PERTNER: Pete, do you want to make a comment?

MR. STRONG: We've used 7 percent, and that's the plan's discount rate and long-term assumption. We believe that should match.

MR. SCHEU: Okay. Thank you.

DR. PERTNER: And then the final page is the recommendations going forward.

Initial rate. I agree with initially where you're starting here and this should be done annually. There's something in the ordinance that says if it isn't done by October, then the city (indiscernible).

MR. WEINSTEIN: It stays the same one year. Each year. Each year it's reviewed.

DR. PERTNER: Okay.

And each October, update the city's actual collected surtax, calculate a compounded rate, insert the recalculated rate, run up the revenue for the periods that you need, update the projection by a represented number of periods and compare estimates.

Again, all the numbers tell you one thing, but is it counterintuitive to what your experience is? That's the next question you have to ask. Is it responsible? Is the amount of money -- is that number that you come up going to be a responsible number the way you know Jacksonville? And you know it better than anybody.

Any questions?

MR. VANPELT: I have one.

DR. PERTNER: Yes.

MR. VANPELT: When you did the tagger, you used the period from the beginning of the recession to the start of the recovery?

DR. PERTNER: No. From the first light of recovery to where it showed it was out, not from what's -- not from 2006. I did calculations on that.

MR. VANPELT: Okay.

DR. PERTNER: But I selected the range that included 2000 --

MR. VANPELT: I thought it was 2006 to 2010.

DR. PERTNER: No. 2010 to 2013. That was the rate -- that was the period of time of the recovery, from here to this point, where we can see what's coming now.

Coming into it would give you values that probably aren't reasonable, but when you look at it from the period of time when you start to see improvement to the point you know you're there.

MR. VANPELT: Okay. What would be the tagger for the entire period?

DR. PERTNER: You'd have one for 2002 compared to '16 and going forward, and that's what this line represents. That would be this calculation from 2002 to '16.

MR. VANPELT: That was the 466?

DR. PERTNER: I didn't give you an actual value. Each one of these individually were calculated and plotted so you can see what it would look like over that same period of time.

MR. LEWIS: Question.

DR. PERTNER: Yes.

MR. LEWIS: So as that recovery period gets further and further in the rear-view mirror, okay, what is your methodology for computing, you know, that appropriate year's rate? Is it sort of based on a different, you know, subset over years, or are you taking a longer view --

DR. PERTNER: Well, once you start -- it's a good question. When that gets in the rear-view mirror, what's the future look like? You can move that forward in a number of intervals you need to, keeping in mind that we could probably expect something between seven and ten years, a hitch in there someplace.

When I look back -- could you go back to page 3?

Right here it was clear you're out of the woods. As a matter of fact, that crossed paths between -- that rate of return from this year to this year crossed paths with the compound rate. It raised to this rate. Notice what happened here. This is more of a leveling, but now you're starting to see a drop.

Now, this is clearly -- you're in good shape, still in good shape, but now you have to ask yourself the reasonableness of that direction.

Are you going to level off? I mean, are you going to really get to that everything regresses to the mean point where it's out flatlining someplace?

MR. VANPELT: What is that regression number? Do you know?

DR. PERTNER: It is less than 1 percent. That R-squared value is going to be inconsequential. It really isn't something that you could be confident that it controlled all the -- enough variables in that thing to be reliable.

But what it does do is give you an idea that if I head to draw a line right down through the middle of it, that's what it would look like.

So I really can't make any determinations about it other than there's where it would be.

MR. VANPELT: You didn't calculate it?

DR. PERTNER: I did the R-square but it was, like I said, .00006 or something. It wasn't something that I thought would be relevant, other than if I had to drop these all in a line, that's where the line would be. Would I be confident that was real with anything I could move forward with? The answer is no.

MR. VANPELT: Okay.

DR. PERTNER: Yes.

MS. DEVINE. So much of this and what was discussed earlier has to do with kind of beginning value sensitivity, where we begin if we start looking at all of that in order to come up with something, you know, that's rational so that that sensitivity seems problematic.

But what I'm just hearing now is that it's going to be annually forecasted out based on what they think the city is going to be able to produce. And I'm curious how the city actually in practice does that and the efficacy in terms of being able to forecast out what the tax is going to be able to produce in terms of its growth.

DR. PERTNER: Sure. As a group, you could say, listen, I'm going to look at the number of intervals we have here and use half plus one going forward. Now, that takes it back into here, into the nasty region again.

If you get out here and things are looking good and our recessionary periods don't get into negative numbers, you can start looking at specific intervals each year you want to examine.

I can't speak to what the city says on that topic. But, again -- and you're actually right, beginning value, end value comparison, and then compound it. That's exactly what it is.

CHAIRMAN SMITH: Any more questions?

MS. DEVINE: Can we -- can we follow-up in terms of how the city historically has forecasted forward? Because it seems like that's going to be the number that's going to get utilized and adjusted by council each year.

Does that make sense?

CHAIRMAN SMITH: The city is going to have a full presentation.

MS. DEVINE: Okay.

CHAIRMAN SMITH: So if you feel like you need that answer now to move forward, but he can't cover it here.

Any more questions for Dr. Pertner?

(No responses.)

CHAIRMAN SMITH: Okay.

DR. PERTNER: Thank you so much.

CHAIRMAN SMITH: Thank you, Dr. Pertner.

So at this point -- at this point I believe we'll move on to the pension fund's actuary, which is Pete Strong. Is Pete here? He stepped out. So let me kind of recap for a little bit while we wait on him to return.

So the pension fund has hired a municipal expert to look at an existing surtax for the past 16 years and come up with a reasonable number, as is our fiduciary duty, which now we know differs from the city's number.

The city is looking at a surtax growth rate of 4.25, and our expert is recommending a surtax growth rate of 3.34 percent.

Now we're going to hear from our actuary, which is Pete Strong.

Tim, did you want to say anything before Pete goes on?

DIRECTOR JOHNSON: No. The Board is familiar with Pete. Pete did a -- he has been around since January. He's done an experience study on the payroll growth, and it will be great to hear, beginning with that, where you are.

CHAIRMAN SMITH: And Pete's job, just to add to that, is to analyze the numbers. His job is not to come up with the numbers, which is why we hired an outside expert --

MR. STRONG: With regard to the surtax.

CHAIRMAN SMITH: -- with regard to this. And if you would explain why that is. I'm sure you're going to cover that in your presentation.

MR. STRONG: Sure. And let's start, though, with our experience study.

After the last Board meeting, it was discussed with both Tim and Mr. Sugarman that in order to change any actuarial assumption, the Board needs an experience study to rely upon. It's actually written in the code that an experience study be performed and reviewed by the Board before as assumption is changed.

So we did that with regard to the payroll growth assumptions since that's up for discussion for change. Right now the long-term payroll growth assumption as determined in the last experience study was 2 1/2 percent. But as you-all saw in Pension Board Consultants valuation report, they limited that based on Florida Statute 112.64(5)(a). They limited that to the ten-year historical average, which was 0.067.

Now, Florida Statute 112.64(5)(b) does say that you can rely on a forward-looking assumption as long as its a reasonable assumption representative of future expectations of total payroll.

So based on that -- let's go to the next page -- we're taking into account an expectation of future payroll.

Now, the ten-year average, as mentioned, was 0.067. We go back further with a 20-year average, that's 1.483. But now when we look at payroll through 2021 reflecting the negotiated-across-the-board pay increases that are expected to be 6 1/2 in 2017 and 6 1/2 in 2018 and 7 percent in 2019, add them to the regular payroll increase assumption, or the regular salary increase assumption of 3 1/2 percent to get total increases of 10, 10, and 10 1/2 during that period, we get a ten-year average looking back as of 10/1/21 of 1.26.

If you assume the plan was closed, you would only have a negative 0.096 during that same projected 10-year period.

Now, the projected payroll to 2021 was based on the following. We took actual covered payroll in 2016. We projected it forward using the salary increases that are already negotiated and expected to occur through 2019. After that we assumed 3 1/2 percent back to our regular salary increase assumption in the valuation of 3.5 in 2020 and 2021.

We assumed new employees would be hired after 2016 at a rate sufficient to maintain a constant head count, and then new employees would be assumed to have the same average demographic characteristics, date of hire, date of birth, et cetera, of those hired during the last three years.

And then also we said new employees, since these are across-the-board negotiated salary increases, we said new employees would be assumed to have higher salary -- starting salaries in each future year, up 6 1/2 this year, up 6 1/2 in 2018, and up 7 in 2019. And that was an assumption that we made.

So now considerations in our recommendation. Usually when a pension fund is closed, we advise no longer using a payroll growth rate. In fact, the Florida Division of Retirement, generally, when a plan is closed to new members, requires that the unfunded liability be amortized as a level dollar amount, as a mortgage, because you're no longer having an inflow of new members coming into the plan to keep driving your payroll growth up.

This fund is in a unique position because 112.64, item 6, which is newly added to the Florida Statutes after the passage of the House Bill 1297, requires us to reflect open group payroll. In other words, new members that would have been come in if the plan were not closed or members covered in positions that would be covered by the plan.

Go to the next page.

CHAIRMAN SMITH: Pete, let me interrupt you for a moment.

MR. STRONG: Yes.

CHAIRMAN SMITH: So before your presentation began, we were talking about the surtax growth rate. Now we've moved on to the payroll growth rate.

MR. STRONG: Yes. We're talking about payroll. Right.

CHAIRMAN SMITH: Did Dr. Pertner -- do you do any analysis on the payroll growth rate --

DR. PERTNER: Not on payroll.

CHAIRMAN SMITH: -- or just the surtax?

DR. PERTNER: Yes, sir.

CHAIRMAN SMITH: So since there's a lot of moving parts, I wanted to make sure we're all on the same page.

MR. STRONG: Now, another consideration that we made in coming up with our recommendation is potential negative amortization. Now, we're going to be required to use a 30-year amortization period. That's -- that's mentioned earlier but your attorney and it's required under 112.64(6)(b) to use a 30-year amortization of the unfunded liability in total after reflecting the surtax.

So when you use a 30-year amortization, that's a long time. You could potentially have negative amortization when you use a payroll growth rate because you're reducing the payment in today's dollars in anticipation that payment will increase each year in the future at that payroll growth rate.

So when you go out 30 years and start with a lower than level-dollar payment, there's potential if your payroll growth rate is too high that you won't even cover the interest on the unfunded liability. That's what we refer to as negative amortization where you're not even covering the interest.

Now, in this case the unfunded liability is going to be reduced further for the present value of the surtax. So we believe there's a risk to the health of the plan if, on that reduced unfunded liability, you have negative amortization, meaning where you're not covering the interest on that reduced unfunded.

We came up with that break-even rate of about 1.27 to 1.39 as a payroll growth rate that would prevent negative amortization, meaning if you go down to 1.27, you would be exactly covering the interest for one year and your amortization payment on that reduced unfunded liability.

Now, based on that, our recommendation for -- generally for a closed plan is zero percent. But based on our understanding of Florida Statutes and the requirement to reflect open group payroll, we're recommending that the payroll growth assumption not exceed 1.25. That's based on a projected -- can you go forward two pages? One more page.

That's based on our ten-year open group projection of 1.269 percent, reflecting negotiated salary increases that are going to happen through 2019, and it's also reflecting the fact that we want to avoid negative amortization if at all possible.

So we have done impact statements reflecting the city's requested assumptions of 4.25 on the surtax growth, 1.5 on the payroll growth. We've also done alternative impact statements reflecting Mr. Pertner's assumption of 3.34 for the surtax growth and our recommendation of 1.25 on the payroll growth rate.

But I'll stop with the experience study for now and see if there's any questions on that.

MS. DEVINE: I'm -- sorry.

CHAIRMAN SMITH: Go ahead.

MS. DEVINE: I'm still trying to figure out why the statute says we should stick with the open versus the closed because it's impactful to what you're doing here.

MR. STRONG: Sure. That's a requirement under Florida Statutes. House Bill 1297, which implemented the pension liability surtax, had language in there where it requires open group payroll to be reflected: All positions covered by the plan, even if they're no longer members of the plan, to be reflected in developing a payroll growth rate.

Now, we believe that actually is -- differs from what we would consider sound actuarial practice, but that's what the law says. So we're disclosing in our report that this differs from what our normal recommendation would be for a closed plan, but we're following the law. If we follow the law and assume open group payroll, 1.25 would be our recommendation.

MR. WEINSTEIN: I can explain why.

CHAIRMAN SMITH: Yes.

MR. WEINSTEIN: I can explain why the law is the way it is.

The statute was written by -- to a great extent the Division of Retirement as well as legislators. The Division of Retirement knew exactly the burden in the place we were in Jacksonville as far as trying to deal with a $3 billion deficit. And they put things in the statute, the 30-year reamortization, the classifications outside.

They knew that if we were treating all three funds as if they were closed, our payments would go up exorbitantly. So they literally put in the statute to treat us as if we weren't closed for the only one reason: That we had a dedicated revenue source. If the revenue source that they created could have been used for anything else but funding the deficit, this wouldn't have happened.

But they felt because the revenue stream was adequate enough for 30 years, would cover the $3 billion deficit, that they would treat us as if we weren't closed at that particular time. They made a conscious effort to make sure that they didn't make it worse for us than better.

MS. DEVINE: Thank you for that.

And the fact that we're now evolving to the potential of using a surtax and not doing it the previous way, does that beg the question whether or not we should take seriously the closed data?

Does that make sense?

MR. WEINSTEIN: In normal circumstances, you would take a 30-year payout maybe down to 15, if you closed it for real. This is -- this is a different product.

MS. DEVINE: Right.

MR. WEINSTEIN: We are on new ground nationally and we're trying to do it -- that's why there's safeguards for liquidity and stuff. We are on national new ground trying to solve what many, many jurisdictions around the country have as a problem.

And legislature, the governor and the Division of Retirement tried to make it so it would work.

So thank you, Mr. Chairman.

CHAIRMAN SMITH: Pete, if you'd continue.

MR. STRONG: Well, I've pretty much have concluded the experience study. I mean, obviously on a closed-group basis, we would be recommending zero percent, but the statute requires us to reflect it on an open group, and so we're following Florida Statutes.

CHAIRMAN SMITH: Sir, have you concluded you presentation?

MR. STRONG: For the experience study.

CHAIRMAN SMITH: Okay.

So your experience study that you're showing here is the 4.25 --

MR. STRONG: No, we're not touching the surtax growth. We're only doing an experience study on the payroll growth rate.

CHAIRMAN SMITH: Okay.

MR. STRONG: And that's involved in the amortization of the unfunded liability. And then also it's what we used to project the contribution forward to the contribution year. There's always a lag between the valuation date and then the start of the contribution year.

So the payroll growth rate is used to project the contribution to the contribution year.

MR. BROWN: So, Mr. Chair, if I could ask, up to this point we have heard from Mr. Strong that his recommendation for the payroll growth assumption rate be 1.25 percent. And we've heard from the outside financial expert that for the sales tax growth assumption rate, that should be at 3.34 percent.

That's what we know so far, correct?

CHAIRMAN SMITH: That's correct. Thank you for summing that up.

Any more questions for Mr. Strong?

MR. SUGARMAN: When -- there's a certain certification that needs to be made when our actuarial valuation is done. That's a project that will culminate in about a year that you have to make, saying it's in accordance with established actuarial principles.

Would you be able to do that with this growth rate?

MR. STRONG: With 1.25, I'll be able to certify that it complies with all statutes, and that based on the application of those statutes in concert with our actuarial standards, that yes, it complies.

CHAIRMAN SMITH: I'm not -- I'm not sure I'm clear. What is your ultimate conclusion? Where did the numbers end up that you --

MR. STRONG: Our ultimate conclusion is -- can you go back a page?

In the third paragraph, "Based on the ten-year compound average growth rate through 2021 reflecting the across-the-board salary increases, 2017, 2019, and an open group projection, and a goal of preventing negative amortization, our recommendation is the payroll growth assumption to not exceed 1.25 percent."

So basically a range of zero to 1.25 is our recommendation.

CHAIRMAN SMITH: Okay.

MR. VANPELT: Can you quantify what you think the negative amortization is (indiscernible) 1.25.

MR. STRONG: Well, negative amortization occurs when your payment initially is less than the interest on the unfunded liability. And that happens sometimes in a long amortization period when you incorporate a payroll growth rate because you're -- with the payroll growth, inherent to that is you're starting with a lower payment that increases by that payroll growth rate each year.

So it's a stair-stepping payment on the unfunded liability, which means that in the very beginning of a long amortization period, it could be less than the interest, and then eventually, you know, grow to be a lot more than the interest down the road.

It's still projected to pay off the unfunded liability over 30 years, but it starts much lower in some cases than just your interest.

Now, the break-even point, we decided, was about 1.27. If you're below 1.27, you'd avoid negative amortization. You'd at least cover the interest on that unfunded liability in the first year.

Now, going to 1.5, you would be under. You would go -- you would have a shortfall where the payment in the first year would not fully cover the interest. So your unfunded liability, even that of the surtax, would be expected to grow.

I didn't quantify exactly what 1.5 would do, but it's going to be approximately a couple of million dollars short in terms of the unfunded liability growing.

CHAIRMAN SMITH: Any more questions for Mr. Strong?

Seeing none, Tim, did you have any more comment before we move to the City of Jacksonville's presentation?

DIRECTOR JOHNSON: I don't. And Pete may want to go and talk about how his recommendation on payroll growth and John's recommendation, Dr. Pertner's recommendation, on surtax growth translates into an actual impact statement while he's there.

CHAIRMAN SMITH: Yes.

DIRECTOR JOHNSON: While's he's there, why don't we do those two impact statements.

MR. STRONG: If you could bring up the first impact statement.

MR. SCHEU: Which one is the first one that you're alluding to?

MR. STRONG: The first one is the one that uses 4.25 percent surtax and a 1.5 percent payroll growth rate, both assumptions of which were requested by the city.

MR. SCHEU: Thank you.

MR. SUGARMAN: Could you do your recommended one first, please.

MR. STRONG: You want to do the recommended. Okay.

MR. SUGARMAN: Do you have a recommendation?

MR. STRONG: Yes. We -- our recommendation was to use 1.25 as the payroll growth rate and to rely on an independent outside evaluation of the pension liability surtax growth, which was John's -- Dr. Pertner's 3.34.

DIRECTOR JOHNSON: If I may, it does appear that your recommended actuarial impact statement is the first one in the book.

MR. STRONG: Is it? Okay.

MR. SUGARMAN: I'm sorry, Brian. Do you concur with that? It's actually your call that he start with his recommended one first.

CHAIRMAN SMITH: Yeah, I think we should go that way.

MR. SUGARMAN: Okay.

MR. STRONG: Okay.

I want to start by kind of discussing numerous paragraphs on the front page. This is the first actuarial valuation that our firm has prepared. It's not often that the first actuarial valuation you prepare for your client is a monumental, first time anything has ever been done like this, type of valuation.

(Laughter)

MR. STRONG: We did have a tight time frame to complete this. We finished replicating the prior actuary's results in March. And so then we only had a couple of weeks to do all this valuation work once we were comfortable with our valuation system being completely set up.

Now, this first paragraph says that we

didn't have a thorough enough time to fully review all of the assumptions used by the prior actuary. So we're using those assumptions and relying on them, but that -- we believe a more thorough review is necessary, in particular with the discrepancy in the DROP interest crediting rate versus the actuarial assumption of investment return by the plan.

The DROPs are all being credited with 8.4 percent interest, and including future DROP members under the ordinance, proposed ordinance.

The plan is assumed to earn 7 percent. So that becomes a disconnect between what you're assumed to earn on all plan assets, the DROP funds are commingling with those assets, and they're being credited with 8.4.

So Pension Board Consultants was using a 2 percent load to account for that, a 2 percent load on liabilities and normal costs to account for that discrepancy of an extra 1.4 percent being covered.

Our chief actuary took a look at this and he believes the actual impact may be more than 2 percent. He believes a full analysis should be done strategically projecting into the future on what the DROP balance are going to be credited with, what the fund is expected to earn to come up with a more appropriate adjustment for that DROP versus expected return difference.

So we believe that should be done before the 10/1/17 valuation is completed, but we wanted to clear the air that we believe the costs could be higher once we deal with that analysis.

Yes.

MS. BROSCHE: So what you're saying is that -- so you don't separate DROP assets versus not? You basically take all of the assets, and you're saying that based on a further analysis which your group intends to do, that you are going to determine how much more expense you need to tack on in order for the non-DROP assets to produce sufficient return to cover the 8.4 percent of the DROP assets?

MR. STRONG: Yes. We believe if the fund truly earns 7 percent a year on average, and you're crediting 8.4, the costs may be higher than a 2 percent low. We have to do a full analysis, and if the analysis comes back and says 2 percent looks about right, then, you know, we can -- we can accept that. But we believe an analysis is necessary to be able to conclude that.

MS. BROSCHE: Thank you.

MR. SCHEU: Is there an alternative that we could separate out the DROP assets legally and invest them separately?

MR. STRONG: I think the ordinance is pretty clear that the DROP assets are earning a fixed rate of 8.4 percent. So I'm not sure that you can invest those separately. I mean, you're not going to being able to guarantee an 8.4 percent, though.

MR. SCHEU: And that was one of the reasons for the reform.

CHAIRMAN TUTEN: That was the 2015 reform, Bill. Not this one, buddy.

MR. STRONG: The 2015.

MR. SCHEU: Oh, I understand. It came out of our task force.

CHAIRMAN SMITH: Okay. Continue.

MR. STRONG: Let's go to page 2.

Our impact statement reflects not only a revised baseline, because now -- I didn't mention the bullet point. Go back one page.

The bullet point on the bottom of this page is a revised baseline. They were revised baseline assumptions that don't match Pension Board Consultants' baseline results.

And the main reason that don't match is this came from a lot of deliberation back and forth with Mr. Welch and his team, Kelly, who we talked to. And we found that he was not reflecting the January 1 timing of the COLA being implemented each year to retirees.

He was using an end-of-year COLA time assumption. He said that this history dated back several years from when the timing of the COLA changed from April 1 to January 1, and that the city issued a no-impact statement for that change, and that he was told not to change his valuation at the time because the city had already issued a no-impact.

But he's using end-of-year timing. We believe January 1 COLA timing should be used. When we use end-of-year COLA timing, it comes within about 0.25 percent of Jarmon's results.

When we now reflect January 1 COLA timing, our results are higher, our liabilities and our costs are higher. So let's go to the next page.

We've also reflected the assumption changes, adding the 6 1/2 percent for 2017 and 2018, and the 7 percent for 2019 to the already existing 3 1/2 percent salary increase assumption to reflect those negotiated across-the-board salary increases.

That gives us salary increases of 10 percent assumed in 2017, 10 percent in 2018, and 10.5 in 2018, then returning to 3 1/2 thereafter.

Now we've added on our fourth column, and our results are the impact of ordinances 2017-259 and 257, 257 being the surtax, 259 being the unwinding of the 2015 reform.

And we've listed out -- I won't go through all the details of this, but we've listed all of the changes that are implemented in these two ordinances. The main ones being a rollback of the 2015 pension reform so that everybody hired through 9/30/2017 gets the same benefits as those hired before 2015.

Let's go on to the next page.

This is again a further list of the changes that were made. The Chapter 175, 185 money will no longer be directly reduced to -- used to reduce the contribution going forward. That will be up to the discretion each year of the Board, you know, subject to collective bargaining.

But the balances that exist, those accumulated UALPA accounts, the unfunded liability reserve, the supplemental payment account, those will be split up according to a formula: 20 percent used for police officers, 20 percent used for firefighters, 60 percent used for the sole purpose of being applied toward the city contribution in the years the city chooses.

So let's go on.

Now, Florida Statutes, 112.64(6). We mentioned that during the experience study. It requires a couple of things that aren't necessarily fully jibing with reasonable, sound actuarial practice.

One of those is the -- one of those is a present value of a future revenue stream discounted to today that's not going to be received until 2031 through 2060, and reducing the unfunded liability by that amount.

This has never been done before anywhere in this country. I don't believe it's been done anywhere in the world, although I didn't research internationally to see it.

But it's almost akin to saying, well, future

Chapter 175 money is growing at about 2 or 3 percent a year; why don't we take the present value of the future Chapter 175 and 185 money and present value that today?

I mean, it's -- it's different than what we're used to seeing. It's a unique structure that's capitalizes an unknown future revenue stream in today's dollars.

CHAIRMAN TUTEN: Pete, can I ask you a question on that?

MR. STRONG: Yes.

CHAIRMAN TUTEN: In any of your research, is there any sort of conflict with GASB or anything like that?

MR. STRONG: GASB will not -- GASB will not allow this to be recognized in advance.

CHAIRMAN TUTEN: Now, is that they won't allow you to do it as far as your accounting, your methods as an actuary?

MR. STRONG: Yes.

CHAIRMAN TUTEN: Okay.

MR. STRONG: Florida Statute 112 dictates how the contribution is to be determined for compliance with Florida Statutes and how you submit your report to the state for determining your contribution requirement.

But GASB has its whole different set of rules and regulations, and it's our understanding this cannot be reflected as reduction in the net pension liability for GASB purposes, and that pension liability meaning the unfunded liability for accounting of GASB 67, 68 purposes.

CHAIRMAN TUTEN: Now, we've got Mr. Weinstein -- in other words, help me get thorough part of it, what he's saying, as far as GASB and as far as using future assets for present value.

MR. WEINSTEIN: Absolutely.

We spoke to our outside auditors and through GASB, and he's exactly correct. Auditors look at things different than actuaries. Actuaries are governed by the state statutes. Auditors are by GASB.

Our outside auditor says it's no problem. The numbers will be different. The liability numbers will be different, as they are now. It's not a problem. It's just going to be calculated differently. GASB will not look at it where the actuary will, but it's not a problem as far as the auditor's are concerned. They'll just note to as to why they're different.

MR. STRONG: Now, for this impact statement we've assumed that the pension liability surtax revenue will grow at 3.34 percent from 2016 through 2060. This assumption was set by an independent qualified expert, Dr. John Pertner.

Now, assumptions regarding future growth and municipal revenue in essence really fall outside of an actuary's expertise.

Our expertise is in valuating the future -- the value of future benefit payment, take into account future decrements, future salary increases, when people are going to retire, how long they're going to receive their benefit, mortality and interest discounting. Those are our fields of expertise.

When it comes to projecting a surtax, you know, for a municipality, a sales tax revenue, you know, we don't have the depth of understanding of the city finances to be able to rely on our own analysis for that projection, so we defer to experts.

And Dr. John Pertner has analyzed that and we have utilized the 3.34. We're comfortable with that since it's been analyzed by an independent source, you know, who has looked at it without any sort of bias.

We're unable to assess, though, the risk and timing of the amount and timing of the future surtax.

Now, there could be legal challenges. There could be -- I mean, 43 years is a long time, as Dr. Pertner said. There could be legal challenges between now and then. There could be economic downturns. Recessions do tend to occur about every seven to ten years.

We're unable to have a full assessment in place of what that future stream is going to look like and whether or not it will even end up occurring.

So based on that, you know, we're including a risk disclosure here that -- you know, that inability to fully assess that is -- can't produce a potential solvency risk if things kind of fall apart over the next 43 years with.

Let's go to the next page.

For the payroll growth rate assumption for amortizing the unfunded liability, we're using 1.25 percent in this impact statement. As I mentioned, I won't go through this again, but I mentioned of our closed group under normal consideration will be zero percent, but we're reflecting 112.64, item 6 in our analysis, and suggesting 1.25 is at the top of a reasonable rate.

Also, with regard to the 30-year amortization, Florida Statute 112.64(6)(a) requires us to use a fresh start 30-year amortization of the entire net UAAL, net of the present value of the surtax.

It's important to note out the expected future service of active members currently covered by the plan is 10.02 years. Take all the active members in the plan and estimate through the timing of the decrements that are going to apply, how long the average person is going to be there until they retire. It's 10.02 years.

So this is effectively creating an amortization schedule that will extend about 20 years beyond when the last member is retired -- or not when the last member. When the average member is retired. There will still be members that are hired recently that will still be active, but when the average member is retired.

So, in effect, we believe this can create a transfer of costs to future generations of taxpayers.

And in 112.61, it specifically says in the statute that, "except as herein provided, it is the intent of this act to prohibit the use of any procedure methodology or assumption, the effect of which does transfer to future taxpayers any portion of the costs which may have reasonably been expected to be paid by current taxpayers."

Now, there is an exception that says, "except as herein provided," and within that same statute, 112.64(6)(a) and (b,) it says that you're required to use a 30-year amortization fresh started, you know, when you incorporate the pension liability surtax.

So there is an out within the Constitution, within the Florida Statutes, by that little phrase, "except as herein provided."

But we believe in effect what this is doing from an actuarial standpoint is transferring costs to future taxpayers.

Now, here's our summary --

CHAIRMAN TUTEN: Let me stop you for a second, Pete.

MR. STRONG: All right.

CHAIRMAN TUTEN: Yeah, this -- this is exactly what the plan does. I mean, let's face it. It just lobs the payment now into the future.

MR. STRONG: Yes.

CHAIRMAN TUTEN: But like you're saying, as far as state statutes go -- my brain hurts.

Bob, make this simple for the Board and the advisory committee. But make this simple. The conflict which Pete just talked about as far as the plan goes, the transferring all the costs to the future generations versus, you know, us using a 30-year whatever, you know, explain how we get around that.

MR. SUGARMAN: This is not our battle.

CHAIRMAN TUTEN: Okay.

MR. SUGARMAN: The issue that is being raised by Pete would be whether or not -- and by asking the question I am in no way suggesting the answer -- is whether or not the plan and the city ordinances and the state statutes that implement it violate the constitutional prohibition against casting liabilities onto future generations.

We at the Board do not have the authority to declare either a state statute or a city ordinance unconstitutional. It's not our battle.

CHAIRMAN TUTEN: Gotcha.

MR. SCHEU: Hey, Bob, is that -- italicized provisions on page 5, with the exceptions, is that constitutional? Looks like it's statutory, not constitution. It cites 112.61.

MR. SUGARMAN: Yes. 112.61 implements the -- hang on. Let me give you an exact answer, if I might. I'm looking up the preamble to 112, which makes clear that it implements the constitutional provision.

So it is -- although Pete is referring to the statute, the statute at its beginning says that it is the implementation of the constitutional mandate.

MR. SCHEU: So there is a constitutional mandate?

MR. SUGARMAN: Yes. It's in the constitutional.

MR. SCHEU: Okay. So the real risks --

MR. SUGARMAN: If I may, 112.61, "It's the intent of the legislature in implementing the provisions of Section 14, Article 10 of the state constitution relating to governmental retirement systems, that such retirement systems or plans be managed, administered" -- and so on -- "in the manner as to maximize protection of public employee retirement benefits. Inherent in this intent is the recognition that the pension liabilities attributable to the benefits promised public employees be fairly, orderly and equitably funded by the current as well as future taxpayers."

Then it says, "Accordingly" -- here's the key words -- "except as herein provided, it's the intent of this act to prohibit the use of any procedure, methodology or assumptions, the effect of which is to transfer to future taxpayers any portion of the costs which may reasonably have been expected to be paid by the current taxpayers."

Again, it's the prohibition on transferring to future taxpayers any portion of the costs which may reasonably have been expected to be paid by the current taxpayers.

But to the extent that this Chapter 112.61 was amended by the provisions that Pete are relying upon, it would come within the "as herein provided" --

MR. SCHEU: Right.

MR. SUGARMAN: -- but it would not provide -- it would not provide -- it would not prevent a challenge being made that these provisions of 112.61 as well as the city code violate the Florida Constitution.

But, again, that's not our battle.

MR. SCHEU: Okay. I agree, that's not our battle. But from the point of view -- I know the chairman of the City Council Finance Committee is there and I think there's another City Councilman.

The constitutional challenge is possible down the road. That's not our battle, but that is an issue to consider.

MR. SUGARMAN: Yes, sir. When we -- when we get to the comment section, our next task, Comments, we will be recommending that you just include a recognition of that risk in your comment.

MR. SCHEU: And just to be clear, the Constitution contains this same prohibition, or is this some more general language that the statute has implemented?

MR. SUGARMAN: No. It's very specific.

MR. SCHEU: Okay. Thank you.

CHAIRMAN SMITH: Go ahead, Pete.

MR. STRONG: Now on to our Summary of Findings.

First, the negotiated salary increases, we're finding would increase the total present value of expected future benefit payments. Now, this is not the actuarial accrued liability. This is the present value of all future benefit payments, including benefits that haven't been earned yet by current members.

It would increase this by about 176.7 million -- or will increase the liability by about 176.7 million, from 3.786 billion, to 3.963 billion.

The ordinance itself, rolling back the 2015 reform, will increase the present value of future benefits by about 64.3 million, from 3.96 billion to about a little over 4 billion.

Now when we reflect ordinance 2017-257 and all the methods and assumptions required under 112.64, item 6, including the present value of the pension liability surtax projected at 3.34 percent per year, we get to a reduction in the current city contribution of 43.28 percent of the covered pay, from 149.7 to 106.46, or a dollar amount of 57,568,000, from 205.5 million down to 147.9 million.

If the present value of the surtax had not been reflected and the plan continued to be amortized, the unfunded liability continued to be amortized as scheduled right now, then the contribution requirement would be approximately 216.9 million. That reflects the 1.25 percent payroll growth assumption, or about 156.12 percent of pay.

The funded ratio would decrease from 45.24 percent to 43 percent, 43.02. Let's go to the next page.

And then reflecting the pension liability surtax, the fund's UAAL would decrease from 2 million -- from 2 billion, 4 million, a little over 2 billion, down to 1,424,000,000. So from about 2 billion to about 1.4.

And then the sum -- not calling this a funded ratio, the sum of the assets and the present value of the pension liability surtax would make up about 59.5 percent of the liability.

The reason I'm not calling that a funded ratio is because I believe a funded ration needs to take into account the actual market value of assets. And under Florida Statutes where it defines what is an investment and a market value -- and an asset of the fund, we don't believe it meets those definitions of being an asset, so we're not including it in the straight funded ratio. We're just showing what the percentage would be if you counted it.

MR. VANPELT: Just to clarify, that 2 billion to 1.4, that's the 580 --

MR. STRONG: That's the $580,000,000 offset, right, for the pension liability surtax.

MR. SCHEU: That's over -- that's over time; is that right?

MR. STRONG: That's in today's dollars. That's in today's --

MR. SCHEU: The year-by-year is earlier, the 40- -- let's see. That's the $64 million, the second bullet point.

No, that's the benefits. I'm sorry.

MR. STRONG: The first two --

MR. SCHEU: It's 57 million. Okay.

MR. STRONG: Yes. The first two bullet points show the total impact in today's dollars over time, reflecting all future benefits expected to be earned by current members.

CHAIRMAN TUTEN: Pete, when you do this scenario, and I know you were in a hurry to do all this, but how hard would it be in the future, once this is all over, for future studies to go in and -- I know we do the studies where we go and, like, we earn 6 percent -- to do one off, but as far as for you guys to put in a broad range of numbers? I mean, do you guys have the software that does that?

MR. STRONG: Sure. Sure. We can -- we call that sensitivity analysis. We can do that.

CHAIRMAN TUTEN: I would just be curious to see if you had different returns on the funds for the year, how it would effect, you know --

MR. STRONG: Yeah. And that's a good segue to what I want to talk about on the next page.

Pay attention to this paragraph right here. We note that closure of the fund, 10/1/17, could lead to changes in investment policy over time.

Usually when a fund closes to new members, you have a limited life now of the fund. It's no -- you no longer have an infinite life span of the pension fund.

You're eventually going to get to the point where you have only retirees that you're paying out. And when that happens, you're going to have to look at your liquidity needs, you're going to look at how safe your investments need to be versus, you know, investing a lot of the money in equities and real estate. You might have to be a little safer, because think about it in your own personal portfolio.

You know, when you're 65 and living on that money, drawing it down over time, you need to be a little more conservatively invested than you were when you were 30 and you were growing that money.

So over time, we believe, in a closed plan you're going to have -- based on advice from the investment consultant as well, the fund will probably have to be invested more conservatively. And that, in turn, would require reductions on the investment return assumption.

Yes.

MR. PATSY: Pete, that would be within the scope of an asset liability study, though, wouldn't it?

MR. STRONG: Right. We're just including a one-paragraph disclosure to talk about the fact that that is something to consider over time.

We recommend that the Board discuss that with your investment consultant.

CHAIRMAN SMITH: Any more questions?

MR. STRONG: Yeah. That does it for this impact statement. We can go to the next one.

CHAIRMAN SMITH: Why don't we take a ten-minute recess just to let me everybody's brain settle a little bit. I've got 11:15 on my watch. We'll come back at 11:25.

(A break was taken; thereafter the proceedings continued as follows:)

CHAIRMAN SMITH: Let's reconvene.

Go ahead, Pete.

MR. STRONG: Okay.

The next two actuarial impact statements I'm going to go through much faster. I'm not going to go through -- a lot of the disclosures are very similar. Let's go forward.

This one is using a 4.25 percent surtax growth rate and a 1.5 percent payroll growth rate. There is a couple of pages I want to talk about. Let's go forward one, two -- one more. Yes.

And this one we have an additional

disclosure, a section called Prescribed Assumptions. And this impact statement we're using 4.25 percent to project the surtax.

MR. SCHEU: Yes, I'm still here.

DIRECTOR JOHNSON: Thanks, Bill.

MR. STRONG: And we're disclosing that this assumption is set by the City of Jacksonville, and that this falls outside of our area of expertise, but that we believe an annual growth rate of 3.34 percent, as determined by an independent expert, to be more reasonable, to be more prudent.

But, again, we're not experts. And so we defer to the expert. So if a 4.25 percent assumption is used, we as actuaries cannot fully ascertain the reasonability of that assumption.

The difference between using 3.4 and 4.25 is about 10.4 million to 10.7 million in the contribution requirement, and a difference of about 156.7 million in the amount of unfunded liability being amortized.

In order words, the value of that surtax using 3.34 is 156.7 million less than it would be if you used 4.25. And that translates, when you amortize that difference over 30 years, from 10.4

to 10.7 million, depending on whether you're using a 1 1/2 percent payroll growth rate or a 1.25 percent payroll growth rate.

Also, the long-term payroll growth assumption being used in this impact statement is 1.5 percent. That's also the one requested by the city of Jacksonville.

And rehashing our concerns about a payroll growth rate of 1.5 and saying again our recommended range is zero to 1.25 for this assumption, but 1.5 is used here as a prescribed assumption.

Go to the next page.

We repeat a lot of our disclosures on Florida Statute 112.64. I won't go through those again. I can answer any questions about them if you have them.

Down to our Summary of Findings. The first two bullet points don't change. The value of the raises, those are still being discounted using the same assumption, 7 percent, the FRS Mortality assumption, all the same assumptions as used in your valuation. So the value of those benefits don't change.

In other words, you're still expected to pay out the same total amount of benefit payments over the life of the fund.

What changes is the way that the unfunded liability is paid down and the value of that present value of the surtax being valued at 4.25 in this case instead of 3.34.

In this scenario, the contribution requirement for the city would DROP from 205.5 million down to 135.3 million, or a little over $70 million. Go to the next wage.

Again, this amount doesn't change the top of the page. The 216.9 million is what the contribution requirement would be if the surtax was not reflected. The funded ratio is the same, 43 percent versus 45.

But the present value of the surtax, when offset against the unfunded liability, the unfunded liability in this case would drop from 2 billion down to 1,267,000,000. So the present value of the surtax is worth -- let me get the exact number -- 737.5 instead of the 580 million disclosed using 3.34.

All right. Any questions about this one? Those are the numbers for 4.25 surtax growth and a 1.5 percent payroll growth.

CHAIRMAN SMITH: All right. Seeing none.

MR. STRONG: Okay. And our last impact statement is with another alternative. Go to the next impact statement.

Yes. Our last impact statement is with another alternative for consideration. This one uses 4.25 percent as the surtax growth rate as a prescribed assumption set by the city. And our recommended 1.25 percent payroll growth rate.

Let's go to the end, page 7 -- page 6. I'm sorry. One page back.

The bottom of page 5 you can see that the -- in this case the contribution for the city would decrease by 68.2 million from the 205.5 to 137.2 million. So it's about a $2 million difference using a 1.25 percent payroll growth rate versus a 1.5 percent payroll growth rate.

Okay. Any questions? Yes.

DIRECTOR JOHNSON: Would you mind, through the Chair, the charts that are attached to all three impact statements --

MR. STRONG: Yes.

DIRECTOR JOHNSON: -- on pages 13 and 14, you have a chart of the Actuarially Determined Contribution, and then on 14, you have the Value of Benefits and Assets.

So the two key numbers that you've talked about, which is the city's contribution, are identified on page 13 --

MR. STRONG: Yes.

DIRECTOR JOHNSON: -- and then the present value of the surtax is identified on page 14.

Can you just take a minute -- because that's kind of where the rubber meets the road --

MR. STRONG: Sure, sure. Let's go --

DIRECTOR JOHNSON: -- and identify -- explain how these two charts work and identify the two key numbers so if they were to compare each of the options, they could see specifically how the numbers change.

MR. PATSY: Tim, in what scenario, the third one?

DIRECTOR JOHNSON: Let's start with the third one.

MR. STRONG: Okay. All right.

Here we show the development under -- we have four columns here. The first column to the far left is Pension Board Consultants' valuation results as of 10/1/16.

They came up the $205.5 million contribution requirement that uses a payroll growth rate of 0.067 percent, which is the ten-year average as of 10/1/16.

The next column over to the right is the end result of after our replication and discussion with Pension Board Consultants on the timing of the COLA, going from end-of-year timing to January 1 timing, and you can see here that the effect of that is about a $6.4 million increase in the contribution requirement from 205.5 million to 211.9 million.

Then when we reflect the negotiated salary increases, 6 1/2, 6 1/2 and 7 for 2017 through 2019, and a change in the payroll growth assumption to 1.25, in this case, to amortize the unfunded liability but no other changes are made, just those two, we get to a net contribution requirement of 209.1, 209.2 million.

Then when we layer on the effect of the surtax, you can see the -- and this is not only the surtax, but also the rollback of the pension reform from 2015.

So the normal cost goes up from 50 million to 50.7 million, and this also actually reflects the higher employee contribution rate of 10 percent of pay up from 8.

So the total normal costs went up by more than that $700,000 number. It went up by about 3 to 4 million, but then it's offset by the higher employee contribution number.

So the net normal cost goes up to about 50.7. The amortization on the unfunded liability almost gets cut in half, from about 160 million down to 84.1 million, because we're fresh starting and amortizing over 30 years and reducing by the present value of the surtax.

You get to the end of the year, project to the contribution year, we get to 137.2 million as our contribution amount.

DIRECTOR JOHNSON: So our take-away at the bottom of the page is that the city's contribution for -- if it were applied to the last actuarial report, the city's contribution would be decreased by $68 million.

MR. STRONG: Yes. Under this scenario.

DIRECTOR JOHNSON: Under this scenario.

MR. PATSY: To clarify your point, that's line K?

MR. STRONG: Yes, the new contribution requirement is line K.

DIRECTOR JOHNSON: The new contribution is K and the savings compared to the other valuation is line M.

MR. STRONG: Right.

MR. SCHEU: I'm looking at the letter with 4.25 and 1.25. In the chart on page 13 that I have, in the bottom right shows ADC of 135,368,758.

MR. STRONG: You're looking at the 1.5.

MR. SCHEU: That's the 1.5?

MR. STRONG: Yes.

MR. SCHEU: Okay. Oh, you're right. Okay. Got it.

DIRECTOR JOHNSON: So, Pete, how do the three compare? If you start with your recommendation and then the city's recommendation and then this third one, if you were to just compare the city's reduction in contribution, because that's a single number --

MR. STRONG: Sure.

DIRECTOR JOHNSON: -- what is the reduction under the first scenario and the second and the third?

MR. STRONG: The first scenario is a $57 1/2 million reduction. That's using a 3.34 percent surtax growth rate and a 1.25 payroll growth rate.

MS. DEVINE: Can you say that again?

MR. STRONG: That's $57.5 million reduction from the current existing valuation, for a total contribution requirement of 147.9 million.

DIRECTOR JOHNSON: And what is it under the city's recommended assumptions?

MR. STRONG: That number is 135.4 million, reflecting the 4.25 percent surtax growth and a 1.5 percent payroll growth rate. So a $70.1 million reduction in the contribution requirement.

DIRECTOR JOHNSON: And the last one?

MR. STRONG: The last one is this one you see here, the 4.25 percent payroll growth -- I mean, 4.25 percent surtax growth and a 1.25 percent payroll growth. And that gets you to a reduction of 68.2 million, or a total contribution of 137.2 million.

DIRECTOR JOHNSON: Thank you.

MR. SCHEU: My charts on both the 1.25 and the 1.5 are the same. So I'll just listen to what you-all say about that.

CHAIRMAN SMITH: Any more questions for

Pete?

CHAIRMAN TUTEN: Yeah, I've got one -- well, not on that. Are you going onto something else, Pete, or --

MR. STRONG: There's one more report I have. It's the 30-year projections.

CHAIRMAN TUTEN: Okay. I've got a question about the funded levels, but when you get to that, I'll bring it up, or do you want me to bring it up now?

MR. STRONG: Okay. Let's go to the 30-year projections.

Okay. We were asked to also -- if we had time, to -- which we made time, to do a 30-year projection analysis in order to get a full picture of what this is going to look like over a 30-year period.

We started with Scenario 1, which is the current plan before any of this happens. And that's assuming the plan is still open and ongoing, the extra payments towards the unfunded liability will still be made, totally $460 million.

And in that scenario we're assuming that that $460 million, as suggested in Pension Board

Consultants' report, was put aside in reserve and allowed to grow until it equaled the unfunded liability, and then a switch was pulled to pay off that unfunded liability in around 2032.

So we assume that that, you know, plan put in place by Mr. Welch was actually implemented in Scenario 1.

Scenario 1A is the stress test, where we say, okay, what if the plan were to lose 15 percent, not just come up 15 percent short of the 7 percent assumption, but actually have a negative 15 percent return, and we just picked a year? We just said, well, what happens in 2019?

I mean, you're probably going to have another recession at some point in the next few years. We don't know exactly when it's going to occur, but I do agree with Dr. Pertner's assessment that recessions tend to occur about every eight to ten, seven to ten years, somewhere in that range.

Now, sometimes you go longer than that, but the overall average is they happen about every seven to ten years. We've had four pretty big ones in the last 40 years. So over the next 40 years, we're probably going to get a similar number of recessions.

So I did a stress test to show what a negative 15 percent a year would have -- what impact that would have.

Scenario 2 is the pension reform reflecting 4.25 percent surtax growth and a 1.5 percent payroll growth assumption, which are the city's requested assumptions.

Scenario 2A is another stress test, same stress test. All right. Now we're in that situation. What happened if there's a negative 15 percent return in 2019?

Going to the next page.

Scenario 3 is very similar to Scenario 2, but instead of the 4.25 percent surtax growth, we're using 3.34, which is the rate that Dr. Pertner came up with. And then we're also using a 1.25 percent payroll growth rate for the amortization. And we again do a stress test assuming a negative 15 percent return in 2019.

So let's go to the results. Let's go forward -- let's start here. This is the baseline. This is assuming the plan stays open and assuming that new interns keep coming in, keep benefiting, the pension reform ordinances

2017-257 and 259 are ignored.

And we assume that that extra $416 million in extra payments gets applied. It sits in a reserve and then applied as of 10/1/2032, which is the fiscal year 2034 line.

Right here our unfunded liability is expected to fall from a little over a billion down to 80 million. We're assuming that's where the trigger is pulled to take the present value, the growth of that 460 million in extra payments and immediately apply it to the unfunded liability. So the funded ratio then becomes 100 percent in 2033 and thereafter.

All right. Let's go on to the next page.

This is with a -- the same scenario but with a negative 15 percent return in 2019. You can see after that return happened, that negative return happened, the market value of assets drops from about 1.75 billion down to about 1.5 billion, and then starts to grow again from there.

The contribution requirement goes up immediately reflecting that, from 213 million up to 244- and then eventually comes down as it gets closer to being paid off.

And, again, we pull that trigger but it doesn't happen again until later because of the negative 15 percent loss we had to use. 2034 to 2035 is when we apply the present value of that 460 million in extra payments.

This is a what-if scenario under the current basis.

CHAIRMAN TUTEN: Can I go back to your Scenario 1, the 7 percent return, the payroll growth 1.25 includes all assumption change? The current plan, are you talking about the 2015 agreement?

MR. STRONG: Yes.

CHAIRMAN TUTEN: Okay. And no changes to that other than the payroll growth is 1.25.

MR. STRONG: 1.25, and we're actually also reflecting the salary increases that have already been negotiated.

CHAIRMAN SMITH: Okay. So looking at your numbers here, assuming 7 percent across the board, in 2035 we're literally 100 percent funded at the time the mayor's current plan essentially starts off.

MR. STRONG: And that's -- the way we did that is we reflected the extra 460 million coming in in extra payments --

CHAIRMAN TUTEN: Right.

MR. STRONG: -- yes, and would pay off the unfunded liability at that point.

CHAIRMAN TUTEN: Gotcha. Thank you.

MR. STRONG: Let's go to the next page. One more.

All right. Here's where we start to factor in the pension liability surtax.

DIRECTOR JOHNSON: What page are you on?

MR. STRONG: I'm on page 6.

DIRECTOR JOHNSON: All right. Thank you.

MR. STRONG: In this scenario we're assuming the 4.25 percent annual growth from the surtax, and we're valuing the present value of that surtax right here. You can see the present value grows over time reflecting one year less of discounting.

You've got this stream from 2031 to 2060 that's discounted back to the valuation date. And so once the valuation date moves forward one year, as the present value increases by 7 percent, because you have one less year of 7 percent discounting, so that present value of the surtax will continue to grow and offset the unfunded liability.

But what we're showing here as the unfunded liability is the unfunded liability not reflecting the surtax. So you can see what the true market value versus actuarial liability is.

And here's the unfunded ratio also not reflecting the surtax, reflecting the true assets from the plan versus what the liabilities of the plan are.

CHAIRMAN TUTEN: So if we go with the city's assumed rate of 4.25 and 1.5, based on 7 percent earned, you're telling me -- including the surtax revenue in this whole equation, correct?

MR. STRONG: Yes.

CHAIRMAN TUTEN: That in 2046 we'll be 51.85 percent funded?

MR. STRONG: Yes.

MR. BROWN: But that doesn't include the --

MR. STRONG: That doesn't include the present value of the remaining surtax proceeds.

MR. BROWN: -- which is why it appears that it's only half funded. But, you know, state law is requiring us to use present value.

So, again, it's kind of a conflict here, you know, with the principles that you have to abide by versus what state law is saying you have to do, correct?

MR. STRONG: Correct.

MR. BROWN: Okay.

MR. STRONG: Yes.

MS. BROSCHE: So on this page 6, you're not -- you are not affecting the actual receipt of the surtax?

MR. STRONG: We are in the contribution requirement.

MS. BROSCHE: In the contribution requirement.

MR. STRONG: And once 2031 hits, we're reflecting it in the cash flow coming into the plan.

MR. BROWN: You're just not calculating it in the funding ratio?

MR. STRONG: Just not adding it to the funded ratio. Right.

MR. BROWN: Okay.

MR. STRONG: Let's go to the next page.

This is the same scenario reflecting the surtax, but assuming we have that stress test where you have a negative 15 percent return in 2019.

You can see the funded ratio immediately would drop from 44 1/2 percent down to 35 1/2 percent. The liquidity ratio eventually gets strained, because of the underfunding of the plan on an already reduced funding ratio down to 35 percent.

The funded ratio would assume to bottom out at about 32 percent, and at that point the liquidity ratio would be below the 5-to-1 ratio that is -- that is currently being proposed.

Now, what do I mean by liquidity ratio? Liquidity ratio we're defining as the net market value net of the DROP accounts. So you -- because we believe the DROP monies are already -- you know, they're already earmarked for benefits. They're owned by retirees. Even though they're commingled with the assets of the trust, DROP account are owned by each individual retiree. So we're netting out the DROP account value from the gross market value.

So the current gross market -- as of 10/1/16, the market value would fall from a little over 1.5 billion down to 1.2 billion to be net of DROPS.

And we divide that amount by the annual

benefit payments. Annual benefit payments are expected to grow every year over time, especially as more and more retirees get in the plan.

So by the time we get out here, your net market value of assets is about 1.6 billion, but your total annual benefit payments are over 300 million. So your liquidity ratio is expected to fall below 5-to-1, down to the 4.69.

CHAIRMAN TUTEN: And according to the plan, if I'm correct, then that would be the trigger that the current mayor and council will have to contribute extra to bring it up?

MR. STRONG: Would have to put more, yes, to bring it up.

CHAIRMAN TUTEN: Is there any sort of --

MR. STRONG: Now, this only happens when we assume a stress test. I want to point that out. You know, if the plan earns 7 percent a year every year, you're not expected to hit that 5-to-1 liquidity ratio.

You're expected to get down into the -- you know, the mid 5s to 1 ratio, but not actually go below 5 to 1. It's when the plan actually -- the asset returns falls short of the 7 percent that this could happen.

Yes.

MS. DEVINE: But you're only assuming one stress test?

MR. STRONG: We only did one stress test. Yeah. There's many more we could have done. We could have done a long-term assumption of, say, you only earn 5 percent every year. I mean, we just -- we were running short on time. It was Saturday when we even got to this.

So we -- we had to do what we could do on the limited time schedule and, you know, more stress tests could be done.

Let's go to the next page.

This one, this projection assumes that we use a 3.34 percent surtax growth rate and a 1.25 percent payroll growth rate. And, again, assuming you earn 7 percent per year every year.

Here the liquidity ratio stays a lot healthier. The funded ratio of the plan dips down into the 40s. It stays in the 40s, but then starts to improve all the way up to 64 percent by the time we get to 2047. And the liquidity ratio stays -- it dips down into the, you know, 6.8, 6.9 range, but it doesn't get down to that 5 or below range.

Let's go to the next slide.

Even when we do a stress test on the scenario, the liquidity ratio, even with a negative 15 percent return, which would drop your funded ratio here from 44.9 to 36.1, even with that happening, your lowest liquidity ratio is expected to be 5.65 to 1.

So the plan stays in a little bit better shape even with a negative 15 percent year that could happen.

And ends up after -- at the end of this 30 years at 61.66 versus the last one was at 51.

Let's go to some charts. This is a chart of the 30-year projection of required city contributions.

The blue line, top line, is the current plan that's before any of these changes. It's still an open group. Eventually once we get fully funded, the contribution requirement would dip down to about $30 million a year. That would just be the normal cost, the ongoing cost of the plan.

The green line is the contribution requirements reflecting the 3.34 percent surtax growth and 1.25 percent payroll growth.

MR. SUGARMAN: Bill, that's the one with the triangles on it.

MR. STRONG: I'm sorry. You got don't have color. I forgot it's black and white printouts.

MR. SUGARMAN: That's the one with the triangles on it.

MR. SCHEU: I've got that and it's color too, yeah.

MR. STRONG: The one with the diamonds, the last one, shows the projection of the city contribution requirement using a 4.25 percent surtax growth right and a 1.5 percent payroll growth rate.

So you see there's a gap between the two, but it's because you're assumed to have less money coming from the surtax eventually, and one versus the other. So you have to -- the city has to pay a little more during that time.

Go to the next one.

This is the same projection of required city contribution, but with the stress test put in place. So you can see there's a spike to 2020 under all the scenarios reflecting the -- what happens if there's a 15 percent loss in the market value of assets and then eventually things stabilize, you know, because from that point on, we're assuming 7 percent a year. And you end up with the higher overall contribution requirement because of that loss that happened in 2019.

Let's go to the next one.

This is a projection of the unfunded liability. The blue line, you're expected to go to zero unfunded liability by the time you get to 2032.

The other ones, the unfunded liability is expected to grow. Now, this does not reflect the surtax again. This is just the market value of assets in the plan versus the unfunded liabilities, and the unfunded liability grows because that present value of the surtax is continuing to grow, and, you know, you're putting in less money into the plan than what would be recommended if the pension liability surtax were not reflected.

The top line is using 4 1/4 surtax growth rate and 1.5 percent payroll growth. The triangle line is using 3.34 and 1.25.

See, the unfunded liability peaks right as the surtax is starting to be received, and it grows, anticipating the surtax would start to be received in 2031, and then it starts to be received, and then it slowly comes down after that.

If we were to draw this out, by 2060, you'd get to zero because the surtax is expected to fully fund the plan by 2060.

CHAIRMAN TUTEN: Pete, can I ask a question? This is a little off topic real quick --

MR. STRONG: Yeah.

CHAIRMAN TUTEN: -- but I just want to -- we've got the current present value and the future value. Let's say we fast-forward -- let's say the city floats a pension obligation bond, hypothetically.

How much would that affect the city's payment every year and what number would that need to be? In other words, would it have to be a minimum of 400, 500? Do you have any idea?

Because what I'm seeing is with this chart, I'm seeing the current reform plan that we have there in the blue and it drops off a cliff about the time the surtax starts as far as the city's payments.

MR. STRONG: Right.

CHAIRMAN TUTEN: I'm just curious as to what that would be. You know, would it be -- how much present value would it need to be to be in the pension fund, or do you even know? You don't have to know. I was just curious if you knew.

MR. STRONG: I mean, I would think to resemble what the city's goal is of reducing the contribution by about $70 million, I think you would need a pension obligation bond that is -- has proceeds about equal to the present value of the surtax, which, you know, under that scenario is over $700 million.

CHAIRMAN TUTEN: Gotcha. Okay.

MR. STRONG: Let's go on to the next page.

This is similar but with the 15 percent loss in 2019. You can see the unfunded liability grows even higher with this scenario before it starts to come down.

And then let's look at the funded ratio. That's the next slide.

The funded ratio under the current plan is, you know, expected to go to 100 percent by 10/1/2032, and then level off.

These two charts show the -- this is the funded ratio of just market value of assets in the plan versus actuarial liability.

You know, under the city's assumptions, we get to about 40 percent funded, and then slowly grow to about 51 percent funded out here as the surtax is coming in.

And then using what I would call the recommended assumptions of 3.34 and 1.25, we're a little better. We end up at about 46, 47 percent, and then slowly grow to about 62, 63 percent out here.

Let's go to the next one. This is the stress test of the funded ratio.

Here the numbers are just shifted a little bit down versus being up here under the -- under the last chart at about 61, and versus being about here in the last chart, we're at about roughly 50 percent funded under the city's assumptions.

CHAIRMAN SMITH: Any questions? Are you all set?

MR. STRONG: I'm done.

MR. VANPELT: Last thing, on the stress test, you didn't have any recovery rate line.

MR. STRONG: No. We just assumed 7 percent from that point on.

CHAIRMAN SMITH: Any other questions for

Pete?

Okay. Thank you, Pete. We appreciate all your hard work.

MR. BROWN: Thanks, Pete.

CHAIRMAN SMITH: Let's move on to City of Jacksonville's presentation.

Mr. Weinstein.

MR. WEINSTEIN: I'd be glad to answer questions, but I won't be nearly as long.

And I want to go through a couple of the goals of the whole process here, and I will get -- you know, as Sugarman says, you only should be concerned about one thing, and I will get to what you should be concerned about. But I feel obligated to talk about the rest of the pieces of this puzzle.

Basically we have a program that tries to manage and match what the people have decided to do. The people voted 65 percent to take care of as much as they could of the unfunded liability, which is now about 2.86 billion with the three funds, with this half penny sales tax.

And it's been our responsibility to try to figure out how to do that, making sure that the three funds are adequately financially sound.

That's what we're here about and that's what you're supposed to be doing as well.

In addition to that we're trying to provide some relief to the city year-in, year-out. We haven't given raises since '08. We haven't done the things that we're supposed to do.

So we have this balancing act of three things: Make the half penny pay for as much as we can, keep the three funds solid and provide some relief. And as you push against one, it makes the other two change. And we're trying to do this in a very balanced way.

As far as your fund is concerned, some of these charts -- and you can take this off if you would like -- some of these charts, basically, to Trustee Brown, takes into consideration the present value and some of it doesn't take into consideration the present value.

And that's why I was referring to this is a very unique product, and some of the measurements used for typical defined benefits programs don't really fit with this new product.

Basically what we're trying to do is build in some safety nets for your fund as well as the other two.

As was mentioned, there's a liquidity floor of 5 -- of a ratio of 5 to 1. We felt liquidity was the one measurement that still really is valid. Let's make sure there's at least five years of payments within the assets each and every year. If it ever falls below, the city puts in more money, as far as the general fund. It can't come from the half penny. It comes from the general fund of the City of Jacksonville.

That, to us, is the best safety net that we could possibility have for the funds.

Another element to this which is very important, we put in there a minimum payment. If you ever -- if you look at some of the city's charts, the city's charts, as far as contribution, includes the defined contribution amount, because as the years go by, not only is the city contributing to your pension fund and the other two, but we're also contributing to more and more people on DC, defined contribution.

So we put into the ordinance that if, in fact, we have some goods years -- right now the last 12 months, the general fund is at 18 percent. We were at about 10 percent last year. You were at about 10 percent last year on return-on-investment. It doesn't last long.

But even if you have a couple of years in that respect, your next year's ADEC, your actuarially determined amount that you're supposed to pay, may drop down quite a bit.

We put in a minimum amount of requirement into the DB plan each and every year. So if, in fact, you had some good years, we're still putting in a minimum amount over and above the ADEC to helpfully deal with the bad years that may come and go.

But the most important piece of this puzzle relates to the 4.25. It's no different than your other assumptions. If your assumption is 7 percent and you've had a couple years now where you're only at 5, you're going to reduce that assumption. It's going to change your ADEC. Changing the 4.25 in years to come will change the ADEC.

We felt very confident between the last, three, five, seven years, picking 4.25, it's the lowest it's been in the last seven years. If it relates to a couple years, that's great. If it comes down, it comes down.

But each year that it doesn't come down gets us closer to the present value. So the pain isn't as much. If it goes down five years from now, we're five years closer to the real cash, which means the present value is calculated differently. Not as many years to discount. So all these things will adjust each and every year.

Another adjustment that the council will make by law is the distribution. We start off with you getting 63 percent of that present value, because you're 63 percent of the $2.6 billion deficit. That's going to change over time. With growth patterns and salary raises, that's going to change.

Each year that distribution will be adjusted. Could be 70 percent, it could be 55 percent, depending upon how things go and return on investments and what have you.

The payroll growth piece. We've had numerous visits to Tallahassee. We've had numerous calls with Tallahassee. Tallahassee already has the General Employees' Impact Statement and the Corrections' Impact Statement. They expect your impact statement sometime today, if all goes well.

They expect it at 1.5. That's what they

have determined and already feel comfortable with. They said by today, we'll have final comments about the other two, and they expect later today yours to come in at 1.5.

Doesn't mean it can't be something different. One of the scenarios that's shown here is -- won't work. You do the 3.4 and that adjustment, and you don't go forward with PFPF. We go forward with the General Employees and Corrections. So everything unravels.

This is a puzzle that has been 3- to 500 pieces, and pulling out any piece adjusts the other piece. Some adjustments are too big to handle. That's too big of an adjustment. There's no reason for it to be 3.4. You don't have any responsibility in that regard. The council -- they have to be the same.

We're already submitted to Tallahassee 4.25 for General Employees and Corrections. They can't divide the pie, the three funds, if the pie is not the same. You're getting 63 percent of the pie. The others get 30-something and about 5 or 6 percent. But the pie has to be the same or the percentages don't work. And the pie is generated by the 4.25, again, which will change each and every year.

So this has been a two-year process. It affects lots of people. One of the key points was the consolidation of your members so you don't have four different groups. Lots of pieces. 24 -- 22 bargaining units participated in getting us to where we are today.

So do your job. Be concerned about your fund, but we will -- but we're required by law every year to pay the ADEC. Whatever happens to the ADEC, if it goes up, if it goes down, every year we're required by law to pay it.

So there's not a risk in that regard. The assumptions will be reviewed every year, the 4.25 as well as your return on investment, as well as your payroll growth. It will all be assumed and adjusted each and every year.

We stand by the 1.5. That's what we've been working on. That's what Tallahassee expects, and we stand rigid on the 4.25. We can't back off that because we already have two funds already in Tallahassee with the 4.25.

Open for any questions. It's been a long two years to get to this point. We think we've solved the problem. Others have tried. And the

2015 reform, definitely in the right direction, caused a lot of great movement. There's no requirement for us to pay the 32 million every year.

The reform says, if we do, then the chapter money is used in a certain way. And if we don't, the chapter money is used in a different way. There's no requirement for the city to put in the 15 million next year and the 32 million for the next ten years.

So that's not in any -- that's not nearly as committed as the half penny. The half penny is locked in, can't go anywhere, only for the unfunded liability.

So we've set it up in a way that we think we've solved the problem in the long run, and that was the goal. That was the goal.

Do you have any questions? I know Jason wants to say a few things.

CHAIRMAN TUTEN: I do.

How did you guys come up with the 4.25?

MR. WEINSTEIN: And that goes to your point. We looked at the last seven years. We looked at the last 13, even with the four years of the recession. We looked at our permits. Our permits are skyrocketing again, commercial and residential. We look at our population growth.

When we first had the conversation, and Pete was on the phone, the Milliman actuary was on the phone, and the Siegel actuary was on the phone, and we were discussing what would be a reasonable growth rate, and basically it was a combination of inflation and being in Florida.

I mean, the number might be different if you were in Ohio at this particular moment in time, but Florida continues to grow. So it was the combination of the inflation, a combination of the growth and where we are today.

We're looking at the next couple years. Even our permits -- our permits that we're doing now which are skyrocketing don't have impacts for a couple years. They've got to be built and then they get on the tax roll. So we're still benefiting from what's happened in the last two or three years.

So we are pretty solid for the next couple years, and with the understanding that we can change it in each year that we get closer to the real dollars, we didn't feel that was a risk -- that was a risk at all.

We had lots of discussions on the liquidity ratio with the Division of Retirement and the actuaries. We settled on five, five years of payments without any money coming in.

Basically that ratio is, how can you pay it out without new monies? Well, in government, there's always new money. We're required by law to make the ADEC. We still have personnel. They're still going to be paid. There's still going to be contributions.

So we feel very comfortable where we are. It's new ground. We couldn't solve it without it being painful. It's the least painful of a lot of solutions, but you can't pay off a $2.86 billion debt without having an impact.

And we are being the ones that decide how to make that happen, and we think we've got a solution. But if you look at one piece of a very difficult -- you know, very difficult negotiation, you may make that one piece not look attractive, but that one piece relates to 12 others that are imbedded in the negotiation. And we feel very good.

Again, anything else?

DR. PERTNER: I just might ask if you

considered the recessionary period we've been through and anticipate any of them in the future?

MR. WEINSTEIN: We felt that it's going to go up and down, but with the review every year, as actuaries do, that that will be impacted, and when it happens, it will adjust the assumptions and the payments going out will adjusted.

This -- again, if we were doing this like Better Jacksonville, we were going out and borrowing money, a pension bond or like a BJP, a Better Jacksonville, and borrow a billion and a half, a totally different story.

It wouldn't 4.25. It would be something substantially less. But that's not what we're doing here. So there's no --

MR. SCHEU: Can I -- can I ask a question? When you're done. I'm sorry, Mike.

MR. WEINSTEIN: Yeah, that's fine. Ask, Bill.

MR. SCHEU: I want to ask Bob and Jason, if we were, from the perspective of the Board, if we believe, and I don't know that we're there yet, but if we believe that we're required to take by the statute the 30-year amortization rate, and we're required, taking Jason's view, to use the

4.25, then our only real discussion, if we believe that, is over the payroll growth rate.

Is that a fair assumption?

MR. SUGARMAN: This is Bob. Yes.

MR. GABRIEL: Yes.

MR. SCHEU: Thank you.

MR. BROWN: Two lawyers agree.

CHAIRMAN SMITH: Any other questions for Mr. Weinstein?

MR. SCHEU: Let me ask one other question related to that.

Ultimately it's the City Council that's going to adopt these assumptions; is that right?

MR. WEINSTEIN: Yes.

MR. SCHEU: Okay. So that one thing we could do, even if we feel mandated, is to say, notwithstanding the mandate, we believe the better practice would be, for example, to use the 3.34 rather than the 4.25. That would be an alternative for us; is that correct?

MR. SUGARMAN: Yes.

MR. SCHEU: And City Council would have to make that decision.

MR. SUGARMAN: Yes. That would be in our comment letter.

CHAIRMAN SMITH: Rodney had a question.

MR. VANPELT: A couple.

On liquidity, you mentioned you're going to put in from the ordinance the 5.1, a 5-to-1 ratio.

MR. WEINSTEIN: Yes, sir.

MR. VANPELT: Why is that lower than like -- why would it not be higher than 5?

MR. WEINSTEIN: Well, because -- because of the way the charts are, you're going to not take that present value in, and that liquidity is going to get -- until the cash starts rolling in, it's not going to be as liquid as it is today. I mean, it's just not.

Basically, again, we're trying to match most of the payment with the sales tax. You can't stay as liquid as you are, but you definitely can stay safe with a liquidity of 5. But it's going to come down before it goes back up, waiting for that cash, basically.

MR. STRONG: Follow-up question to that.

If you are at 5 or 5 1/2, you're getting down to that low liquidity ratio around, say, 2028, 2029, when you're getting close to the 2031 time, and there's a major recession at that point, you know, say you're at 5.2 and you have a -- like the stress test I did, you have a negative 15 or a negative 20 percent return in that year, it could at that point create a 3- or 400 million dollar requirement to get back to 5.0.

MR. WEINSTEIN: It will -- it will -- the same impact if we didn't have this going on and we hit a bad recession, it's going to have an impact. I mean, everything will come down. Your expected return will come down, the payroll growth will come down, and there will be a higher ADEC. There's no question about it.

MR. STRONG: Will it --

MR. WEINSTEIN: Will it be -- will it be more substantial --

MR. STRONG: Yeah.

MR. WEINSTEIN: -- doing it this way? Everything -- everything will be -- a little bit -- the good will be a little bit better and the bad will be a little bit worse.

But basically what we have here is we have 30 years of a half penny. And if things go astray, then instead of getting to where we want to get to in 2052, maybe it will be 2056.

But the half penny will generate enough money to get us to where we want to go. It's just a question of how quickly we get there, and that's going to depend upon how closely the assumptions turn out to be accurate.

Again, we're getting returns that are better than our assumptions. That's going to effect next year's payment.

But basically we tried to build in -- we knew this was, you know, new, but we tried to build in ways to make sure that all three funds -- what we do for you isn't for you. It's for all three funds. They all have a liquidity floor. They all have a minimum payment.

So we're trying to get there and make sure each of the funds are financially sound. If we hit a bump in the road, it's going to impact the ADEC to come, and the city is going to have to make those contributions.

MR. STRONG: I guess my question, though, is, will there be any kind of safety net? If you are hovering around that 5.0 and in case there is a downturn, will there be a safety net or a reserve?

I mean, it's hard for me to imagine a 3- or

400 million-dollar bill could be paid all at once. I mean --

MR. WEINSTEIN: Well, again, everything that happens is stretched out over a period of time. You know what I mean?

Whatever -- whatever impact you have of your good things or your bad things are then stretched over a number of payments. So you don't make it up in one particular year. You don't go down as much as you'd like one particular year because of good things. You don't go up as much --

MR. STRONG: So you're saying that in the year immediately following that, the liquidity ratio could dip below 5? It wouldn't have to immediately be funded back up to 5?

MR. WEINSTEIN: It would have to be -- the way it's written now, it would have to be funded up to 5.

MS. DEVINE: I was thinking the same thing, is, what is the max allowable in terms of what the budget would allow to be up?

MR. WEINSTEIN: Well, you wouldn't -- you wouldn't have that -- I mean, you would know things are coming and your assumptions would begin to change. I mean, your return on investment would begin to change. It would change the ADEC and all. I don't see it happening all in one year. But that's -- you know, in 2028, they'll have to figure that out if that happens.

CHAIRMAN SMITH: Go ahead.

MR. VANPELT: You mentioned minimum payment, two parts. What is the minimum payment proposed and is it indexed like this 4.25 growth rate, is it in there?

MR. WEINSTEIN: No. It's a minimum payment. And the minimum payment out in the future -- well, from the beginning is 110 million, and it's because as time goes on, you're going to have fewer and fewer people and they'll be more and more in the DC. So we don't want to relate the minimum payment to the city's contribution for pension because DC is imbedded in that.

This minimum payment is only for DB and it's at 110 million, and that would only happen, again, if things were good for a few years, the ADEC came back and said you only have to put in 95 or 90, we'd still put in 100.

So on some of those out years when we're out 70 and 80, we're still going to be at 110. It's just to try to build some cushion in there after good years for the bad years to come. And each of them have different floors.

CHAIRMAN SMITH: Any more questions or comment?

I've got a question for you. So one of the changes that I think will be coming in the future, it's already here and going up every day, is that online sales are where a lot of consumer dollars are going. One of the big issues the State of Florida went through is that many of those retailers were not collecting state sales tax. Now most of those major retailers are paying a state sales tax.

Do we have a system in place so that if I purchase something on Amazon.com and I paid the sales tax, is Duval County getting their portion for purchase online?

MR. WEINSTEIN: Yes, if it's paid correctly.

CHAIRMAN SMITH: Okay. So there's no --

MR. WEINSTEIN: We still get our -- we still get out -- well, once this is -- you know, we get our Better Jacksonville piece of that --

CHAIRMAN SMITH: We're getting it?

MR. WEINSTEIN: Yes, yes.

CHAIRMAN SMITH: Okay. Are we counting on the state to send those dollars to us?

MR. WEINSTEIN: Well, the Department of Revenue -- that's the responsibility of the Department of Revenue. We do count on the state to do that correctly, but we can monitor it. But right now, yes, it's the Department of Revenue.

Jason, did you want to say something?

MR. GABRIEL: Thank you. I just want to make a couple of points: 1, with respect to our office and the interplay with this Board, and then Number 2, really the sole legal issue that I'm here in attendance for today, which is the surtax valuation issue.

The Office of General Counsel is the central service for legal counsel for the entire consolidated government, including the independent agencies, which would include this Board.

This notion has been explored and settled with input from the attorney general's office through binding Opinion 16-01, which I will once again provide to you after this meeting.

It was said earlier that the current Keane case, which is in play, which we'll be discussing at some point in the future, perhaps in a shade meeting, will determine that issue. It will not.

Our office and the integrity of our office and the centralized legal services that we provide is not in dispute. It's been settled. And I'm happy to discuss that issue with any of you individually or at a subsequent meeting.

As has been an issue in the past in our efforts to afford you a comfortable path in the future, you should not be put in a position to have to choose between legal opinions. At the end of the analysis, either an attorney employed by our office, the Office of General Counsel, or an attorney or firm engaged through our office, should be providing you consistent one mouth piece, informed counsel.

So in that spirit, I will be coordinating with the Police and Fire Pension Fund and with Mr. Sugarman's office at a future meeting to discuss further the appropriate role of legal counsel to this Board and how that should be handled on a day-to-day basis. Our office should always be the starting point for any legal question.

Now I want to turn quickly to the issue of the surtax valuation matter at hand. And here's our position, and it's five-fold.

The statute in plain terms spells out that the city, the city, is the entity that determines and applies that value, and your actuary is to calculate that value in conjunction with all the other variables and values that you have determined. There's a lot that's within your domain as a body and as a Board to determine, including the payroll growth assumption and a lot of other variables.

But the pension surtax, this new value, and your actuary said as much earlier, it's a new, novel day. That's a value -- that particular aspect is a city -- is a city value.

The second in my five-fold points here is that the city will, by law, be making that determination every year as Mike Weinstein pointed out. It's going to be in the ordinance and in conjunction with state law. The city, by law, will be making that determination every year. It could be 5 percent next year. It could be 3 percent next year, and that will be a debate that will be ongoing through the course and the life of this program.

The third point is that the city is a taxing authority. This is their domain.

The fourth point is that the city is in a position to have to do this very same fiscal determination and exercise with its other two funds every year. And it will have to answer to the Division of Retirement, along with the citizens and the taxpayers, and we'll have to always be looking at these values and adjust them as needed, depending on the circumstances of the day.

The statute prescribes only one entity to do so and it's the city, as the legislature knew very well a given city certainly could have multiple plans with multiple boards, and it wasn't going to get into the business of having multiple values on multiple plans when you're describing those in conjunction with one tax.

And fifth and lastly, the responsibility of the valuation, distribution and funding by the pension liability surtax is for the city.

Your responsibility as a board is to administer the fund by following the commands of the statute; that is, your charge -- and I'm lifting this directly from the statute -- as fiduciaries is to make your decisions with respect to the plan solely in the interest of the participants and the beneficiaries for, and I underscore this, the exclusive purpose of providing benefits to participants and their beneficiaries. That's your focus.

As an extension of that duty, you've employed your actuaries to do their job in tandem with you to apply these various actuarial requirements and various values as commanded by the statute to determine the appropriate interplay of the benefits, the funding and the employees of the fund based on the factual circumstances at hand at that point in time.

And now going forward, the surtax value, as determined by the city, is part of that review. And so there's obviously going to be a necessary coordination and collaboration between the city, as a plan sponsor, and this Board as a plan administrator.

I just wanted to put those points on the record, and obviously we'll be having further conversation in the future about that.

CHAIRMAN TUTEN: Jason, this is the second time this has happened recently. You did the same thing when we were talking about going along with the contract.

And it just strikes me as odd that this was, you know, assumed that the Board had certain powers up until the last second when we were going to have a meeting to discuss it. Then all of a sudden the general counsel comes through, hey, by the way, I've been talking about this the entire time. This is what the law says, thanks for participating, Board of Trustees, but you're no longer needed.

So essentially what you're telling us now is that no matter what they recommend to us, no matter what we recommend to you, you're going to do 4.25 and 1.5. Is that what I'm understanding?

MR. GABRIEL: To the Chair and to the Board --

CHAIRMAN TUTEN: Yes or no. That's all it takes, brother. That's all it is.

MR. GABRIEL: No.

CHAIRMAN TUTEN: No. So if we recommend something different than 4.25 or 1.5, then that's what you guys are going to do or recommend to the council?

MR. GABRIEL: To the Chair, what I'm

proposing, what I'm counseling you to do is to take your actuary's advice and very well-reasoned calculations on all the various variables and everything, but on the surtax question, that is for the city to determine.

The city has proposed 4.25, and I would advise that you take that into account in calculating your impact statement.

I do want to propose to you, and I mentioned this individually to some of your Board members, you have every -- and Mr. Sugarman brought this up earlier. You have every opportunity to make any editorial comments, you know, in your review and comment on the ordinances themselves.

So if you believe that the 4.25 is unreasonable for any given, you know, reason, you're more than welcome to state that and you'll have a venue to do that through your review and comment of the ordinances.

CHAIRMAN TUTEN: So what you're saying, then, in a nutshell, because you just told us that the city has the right to set those numbers, that no matter what we present here to you, that's what they're going to do. Is that what I'm understanding, Mr. Weinstein --

MR. SCHEU: That's not what he said. It's only as to the sales tax revenue. But we have some flexibility on the payroll growth assumption.

MR. GABRIEL: That's correct.

CHAIRMAN SMITH: Did you have any further comments?

MR. GABRIEL: No, unless there's any questions.

CHAIRMAN SMITH: So let's move on to the next portion of the meeting.

We have a unique situation here where we have two separate bodies that are essentially meeting simultaneously. So this normally, with parliamentary procedure, there would be a motion on the floor before you have any discussion.

This is complicated stuff. I know that my head is swimming quite a bit. I'm sure some of yours is as well. So I'm going to go over a few things to try and summarize where we were right now.

I'm going to give a chance for us to go around, express opinions, ask questions of the subject matter experts that we have here today. And once we feel like, you know, we've gotten many of our questions answered and feel comfortable going forward, at that point we would look to have the Financial Investment Advisory Committee have discussion amongst themselves to make a recommendation. We will introduce a motion. We will vote on that motion.

We will give that recommendation to the Board of Trustees, who will have an opportunity to have their own separate discussion based on our recommendation.

I say separate, you know, but we will be in the same room. But once we get to that portion of the meeting, I will ask that as the FIAC is deliberating, that we don't have comment from the Board of Trustees until we've completed our process and our recommendation.

I want to start with what Bob Sugarman opened up with to get us focused, because it's such a big picture, but I really want to try to narrow this down for both of the committees.

Number 1: We're not guided by the interests of the city, the unions, the collective bargaining for the future police and firefighters. We're guided by our fiduciary responsibility. We're guided by what is in the best interest of the participants and the beneficiaries of this plan.

As the FIAC, our job is to make a recommendation to the Board of Trustees on actuarial matters. This is certainly an actuarial matter. There are three assumptions that were presented. And I know it was a little tough to follow, so I tried to summarize it as best I can.

The city's proposal was that we use a growth rate of the estimated surtax revenue to be 4.25 percent, and that we use a payroll growth rate of 1.5 percent. While any motion can ultimately be made, that's one of the proposals that we'll be discussing.

We have an outside expert who we hired who said he believes that the growth rate, surtax revenue growth rate, would be more appropriate at a rate of 3.34 percent and a payroll growth rate of 1.25 percent. That's another proposal that's out there.

And there was another alternative that was mentioned as well in which the estimated surtax revenue growth rate was 4.25 percent like the city's recommendation, but the payroll growth rate, instead of 1.5 percent, was 1.25 percent.

So in our discussions, if we can narrow it down and look at these three proposals, because ultimately we've got a lot of data and we have to determine which of these three proposals is the one that meets our first requirement, which is to act in the best interests of the participants and beneficiaries of the Police and Fire Pension Fund.

So with that, we will open up the floor for discussion, questions of the subject matter experts, talk as much as we can until we feel like we're getting somewhere, then we can adjourn the FIAC meeting. Not adjourn. I'm sorry. Convene that portion of this joint session.

MS. DEVINE: I'll start. If the city has to make up the difference each year, I'm trying to understand what the downside is to the plan, to the plan's beneficiaries. That's the objective from my consideration.

What are the risks that the plan can't pay out the benefits ultimately? No matter what scenario we look at, even if we thought the more rational numbers, more conservative numbers, were in the best interest of the analysis, if the 4.25

and the 1.5 growth rates are assumed and the city still has to meet the demand, if you will, what is the downside of assuming or taking those recommendations?

I'm trying to understand the fallout if we -- if we go with one over the other.

CHAIRMAN SMITH: Now, are you wanting to address your question to a subject matter or a person --

MS. DEVINE: I don't know who to address that to.

CHAIRMAN SMITH: -- or do you want to open that up for discussion?

MS. DEVINE: Tim, I don't know whether or not I should address that to you ultimately.

DIRECTOR JOHNSON: Well, you know, this growth rate is going to be the initial rate that's used. And you saw the impact of the 4.25 percent initial rate on the city's contribution.

If you look at the recommended rate from our expert, it's about a $57 million savings to the city. If you look it the rate that the city proposes, the 4.25, it's a $70 million savings. There's a $13 million difference.

So clearly that's $13 million not coming into the plan, is not an asset of the plan. But it's also $13 million that the city can use to do other things.

So in terms of weighing that, what's the downside? Well, obviously for the plan more assets is better from our perspective. So that's the difference between those two proposals.

It's also going to set the pace for savings going forward. So in other words, as long as that number stays where it is, those savings are going to continue to track, just as if you used a lower number and those savings were to track, it would be more money coming into the plan, but there would also be less money for the city to use.

Lastly, as assets come into the plan that are ultimately used for benefits, we're looking to get towards solvency and health, right? If I were a 50-year-old police officer and I were retiring and expecting to live another 20 years or hopefully more, I would hope that the plan would have enough money to pay my benefits. But obviously we're not there right now.

You saw, based on the liquidity ratio or factor that we've adjusted, that we're basically saying to a guy who retires at 50 and could live to be 70 or 75 years old, for right now, we've got enough money to pay you for five years. That's not really great security.

If we were at 80 percent funded, we would have 20 years worth of benefit payment in the bank as cash to fund those benefits.

So in terms of downside, I think it's those two things: One, it's just less cash coming into the plan, which mean less assets for the plan; and, two, as your assets reduce, the security of your members reduces. It's just less money to pay the benefits. So there's security with regard to our ability to pay that benefit on into the future. Other than that, it's just a number.

Mike has made a great point, that every year these numbers can be readjusted. We don't have a lot of clarity about who's going to propose the readjustment, what the criteria is going to be. But for right now I think we're really talking about the initial number or rate we start with.

There's no guarantee that that number is going to be the same in year 2 or year 14 or year 30. It could be different based on circumstances at that time.

CHAIRMAN SMITH: Who's next?

MR. LEWIS: That's an important point for me, I think, Tim, in terms of what is that process and criteria for determining the city's sort of assumption for the surtax growth rate?

You know, I think in terms of the presentation we heard from John earlier, we have a sense, at least I do, of at least what is the foundational sort of principles that would be applied to come up with what is an estimate at the end of the day and will be subject to change.

But personally, for me, I think having a little bit more grounding in terms of how the city will prosecute that portion of its sort of -- you know, sort of responsibility, actually here, is missing for me.

DIRECTOR JOHNSON: We're going to have the opportunity in the next phase -- Bob alluded to it earlier -- to provide comments to the city that it can consider as it deliberates -- specifically City Council, as it deliberates over this reform legislation.

And I think that's going to be a crucial part of it, giving them some insight as to how they might consider on an annual basis, what factors they might look to to consider how to adjust that number, because as we've heard, there's probably an inherent conflict that the bigger that rate is, the less money they have to put into this plan and the more money they can use for other things.

So there's no real incentive to change the rate once it's established or to lower the rate once it's established. If we know going in what the rules are, it might give you more comfort that you know there's some sort of accountability with regard to the formula they're going to use or the process they're going to use for re-evaluating that rate every year.

MR. BROWN: And I would ask Mr. Weinstein, is there any sort of proposal for how the City Council will hold themselves accountable each year in determining that rate?

MR. WEINSTEIN: Mr. Chair?

As I said before, they'll take in the economics of what's going on, but I can't dictate to the council members how they're to determine -- you know, you've got 19 elected officials that they have the responsibility of the whole city, and this will be one of those pieces.

But it will obviously be -- I can't see how things could be really good or really bad and not have this number looked at, just as they look at all the other numbers of recurring revenue and expenses and what have you.

And ultimately, to your point, whatever goes well or whatever goes badly, it's going to end up being paid by the sponsor, which is the city. The city ultimately will have to pay the ADEC. Whatever happens to it in the future, the city is going to have to pay for it.

So this will be looked at like all the other things that council does in going through its budgetary times. We've specifically made it in October because it would be then just finishing the budget and they will have gone through all the revenue and all the expenses of the city and have a sense of how things are going, and then they'll make that determination. But it will be up to them.

MR. VANPELT: I have a question of Dr. Pertner.

DR. PERTNER: Yes.

MR. VANPELT: You mentioned that it's very hard to give you a rate for 43 years.

DR. PERTNER: Right.

MR. VANPELT: But you can give us one over the small -- what would it be over, one, three, five years?

DR. PERTNER: Well, I looked at -- the other day the city issued a three, five and seven year average, and that was just an average of the percentage. And, of course, it's in my nature to double check things. And I see I can come up with the same average for three and five because it includes complete years.

But it appears to me the seventh year is based on 2017, which is incomplete. Seven months of that is based on a 4.62 increase over 2016. So when you start looking at those numbers, that's why I say, you want to make sure you're looking at history and exactly what's there.

As I pointed out to the -- I did a factor of the rates, the returns for the period -- let me get my paper out here -- for the period of recession.

And you saw the range of those things went from negative values all the way to 5.54, which would have been the average between '13 and

'14 -- or '12 and '13. 2.58 would then be the next one down, which would have been the year 2009 to 2013. It just seemed -- that's ridiculous. That's -- that's low.

A 4.37, after seeing that 2014, '15, '16 start to arch the other way, I thought might be too aggressive. So 3.34 is where I left it.

MR. KOWKABANY: Did you think your results would have changed had you, in fact, taken a longer time frame, or would you be able to really opine on that?

DR. PERTNER: That's a good question.

Probably would have experimented with a lot of other things, but I think it would have ended back up here, you know. That's the thing. What's reasonable? That makes a difference. You can look at a lot of numbers and you always want to see the better, you know.

And if I can speak to the responsibility, the fiduciary responsibility that Bob spoke to earlier, that's where your decision lies, can you provide those?

MR. STRONG: John, what was the overall compound average throughout the entire 15-year period that you had?

DR. PERTNER: 2.6, 2.8?

MR. STRONG: 2.6, 2.68?

DR. PERTNER: Somewhere in there. I can't remember off the top of my head.

MR. STRONG: And the city -- the city showed an average of 3.2. How does that differ from the 2.68?

DR. PERTNER: Well, the compounding this. You start with the 2002 -- again, I started 2002, full year, 2016, full year as the end --

MR. STRONG: And you're doing a compound average, you get to 2.68.

DR. PERTNER: Right. Based on what I've seen, I'm not sure what the city used. They could have used fiscal year partial 2001 to fiscal year partial 2017. I don't know.

CHAIRMAN SMITH: Any other questions or comments?

MR. LEWIS: I have a question for Pete.

Going back to the payroll growth assumption --

MR. STRONG: Yes.

MR. LEWIS: -- I think you mentioned in your presentation that, you know, a rate above 1.3 something or maybe 1.4 introduced the possibility of a negative amortization.

MR. STRONG: Yes.

MR. LEWIS: What would your assessment of 1.5 percent assumption for payroll growth introduced into kind of the risk of the pool?

MR. STRONG: Well, you're going to end up increasing your unfunded liability in the short term instead of maintaining it. You know, they -- and that's an adjusted unfunded liability already reduced by the pension liability surtax.

I'm saying that adjusted unfunded liability would start to grow a little bit in the short term if you're using 1.5 percent. The rate of increase in the payment would be faster at 1.5 instead of 1.25.

The overall impact of the unfunded liability would probably increase about a couple million a year in the early years instead of being maintained. That's why the difference in contribution is about 2 million.

You know, under the 1.25 percent payroll growth assumption, you're covering the interest on that reduced unfunded liability, so you're maintaining that unfunded liability, that net unfunded liability, and then slowly paying it down eventually versus increasing first and then coming down.

You know, it's a $2 million difference in the grand scheme of things. So it's -- for a fund with 3 1/2 to 4 billion in liabilities and 1 point something billion in assets, I mean, $2 million in the grand scheme of things is not a huge number.

I mean, $2 million, when I think about $2 million, it's a large number for an individual person. But for a plan this size, $2 million, you know, it's a small percentage of the overall assets and the overall contribution requirement, but it covers in full the interests on the unfunded.

MS. DEVINE: I think from my perspective, what we're deliberating now is the 1.5 percent, and based on what you shared with us, you came back with a 1.25 percent, zero to 1.25 percent.

MR. STRONG: As our recommended range, yes.

MS. DEVINE: But if you had the ability, I forgot the specifics, but statutes and what have you, if you had the ability, you wouldn't go with that. You would have gone the zero percent --

MR. STRONG: Right, outside of statutes,

yes. Yes.

MS. DEVINE: So for me, that's the number that I'm trying to assess the impact in terms of what I'm looking at.

But we only have wiggle room to go to 1.25. So our decision, if I understand this correctly, is to go with the city, 1.5, or to adjust it. And our advice, if you will, would be 1.25, which isn't even your recommended advice per se.

MR. STRONG: It wouldn't be -- it wouldn't be our best practice advice --

MS. DEVINE: Right.

MR. STRONG: -- for a closed plan. But, you know, in accordance with Florida Statutes and reflecting an open group projection of pay, you know, of all members expected to come to the plan, even those who are going to the DC plan, 1.25 would be our recommendation.

MS. DEVINE: So that's the spread.

MR. STRONG: Yeah.

MS. DEVINE: That's the difference of what we have to assess here, if I understand this correctly.

CHAIRMAN SMITH: So you said the 1.25 would not be your recommendation necessarily, but since this is new territory, this is it?

MR. STRONG: Well, it wouldn't be our recommendation for a typical closed plan.

CHAIRMAN SMITH: For a typical.

MR. STRONG: Yes.

CHAIRMAN SMITH: This would be an atypical --

MR. STRONG: This is not a typical closed fund. This is subject to Florida Statute 112.64 item 6, and in that case, we have to reflect the requirement to use an open group payroll assumption.

And assuming -- you know, taking into account payroll members not in the plan but that are still police and firefighters of the city, and under that scenario, that's where we come up with the 1.25.

MR. SCHEU: So that scenario is really statutorily mandated --

MR. STRONG: Yes.

MR. SCHEU: -- and all things being considered, you would want something else, but you, just as we, are required to follow the statute. So 1.25 is your well-reasoned recommendation; is that right?

MR. STRONG: Yes. Yes.
MS. DEVINE: Given the precedence of this new structure product, does that beg the question whether or not the statute needs to evolve to allow more flexibility in how we access that?
I'm not sure, again, the circular nature of that. But if this is establishing precedent, does the statute need to accommodate, ultimately?
MR. STRONG: You're referring to Florida Statutes?
MS. DEVINE: Whatever --
MR. STRONG: Or the ordinances --
MS. DEVINE: The one that you quoted that it needed to be considered open, whatever statute that was.
MR. STRONG: Yeah. That's -- that's outside of my jurisdiction. That's -- that's written by, you know, the state government in Tallahassee.
MR. BROWN: And through the Chair, great point. But I think to keep us on task for this particular meeting, that isn't something that would be relevant today. It would be more relevant in the comment portion of the next Board meeting.
MS. DEVINE: Fair enough.

CHAIRMAN SMITH: What other questions or comments are out there?

I wanted to ask, Mr. Weinstein, on the -- you said the surtax growth rate would be re-evaluated every year and that re-evaluation is to determine what the city's contribution to the plan would be for that year.

Does that begin --

MR. WEINSTEIN: It's one -- it's one of many, many variables that go into determining what the city's contribution is.

CHAIRMAN SMITH: But that re-evaluation doesn't begin until the surtax begins in 2030, correct?

MR. WEINSTEIN: Yeah, if this -- no, no. The re-evaluation would -- no, the re-evaluation would be October 31st of this coming year for next year's. It starts immediately. October 31st of '17 would be their re-evaluation to review that number that would impact the actuary that's done next year.

CHAIRMAN SMITH: So what I'm seeing is the decision today is pretty important because I don't know how you would re-evaluate the growth -- well, I guess you would re-evaluate the growth rate of the surtax because we still have an existing surtax that we can look at.

MR. WEINSTEIN: Yeah. The Better Jacksonville Plan is very close -- the Better Jacksonville Plan surtax is divided between the beaches and other entities as well as Duval -- Jacksonville.

The pension liability surtax is only for Duval County. So our numbers are a little bit higher than the BJP city piece, but we know it every month.

To the point of your growth expert, we looked at every month's worth of returns. We didn't look at just the year. We looked at every month's real money, not -- you know, we didn't break it off because it was only six months. We used those six months' worth of real cash so we have a better understanding of where we are today.

And, again, we expect this year to be well over 5 1/2 again, like it's been. But if it starts to turn down, every October that will be reviewed. But it's only one of a number of variables that's looked at in determining the ADEC.

MR. SUGARMAN: I guess the focus, to try to save the trustees from the job of having to do that, Mike, is, whose job is it specifically? The ordinance says the council will do it, but who brings it to council? Will you be doing it? Is that --

MR. WEINSTEIN: I might have input, but the council auditors. They've got a staff of many, many CPA council auditors. And council auditors work for the council. I work for the mayor.

MR. SUGARMAN: Okay.

MR. WEINSTEIN: And this is really in the council's bosom. But they would ask hopefully for some opinions, but it would be council auditors, which are mostly CPAs.

MR. SUGARMAN: So it will start with them.

MR. WEINSTEIN: It will end with them. I don't know whether we'll make a recommendation --

MR. SUGARMAN: Okay.

MR. WEINSTEIN: -- but it's different than the budget. When the budget starts, we make a recommendation. This does not require a recommendation from the administration. This is a council responsibility.

MR. SUGARMAN: But will the estimate -- will this be in your budget, an estimate as to what this amount will be?

MR. WEINSTEIN: The only thing will be in our budget is what the actuary -- what the impact statement requires us to pay. That will be in our budget as a line item.

MR. SUGARMAN: Oh, okay.

MR. WEINSTEIN: This will be something after the budget. This won't be imbedded in the budget because it's going to effect the next year's budget.

CHAIRMAN SMITH: So I guess what I would be hearing is a meeting like we're having today is going to happen every year ongoing?

MR. BROWN: Mr. Chair, I think that annually we will, after your recommendation, determine that payroll growth assumption rate.

But, again, I think it's been established that the sales tax growth assumption rate will be determined by the City Council.

So annually our only responsibility will be to figure out what that payroll growth assumption rate is. And by extension, I think today, as I'm hearing it, I think that is our one responsibility. While we will certainly be presenting an impact statement, really, the one question we need to ask is, what payroll growth assumption rate should we use?

CHAIRMAN SMITH: What other questions or comments?

MR. SCHEU: I would agree with that, Chris. I'd agree with that, Chris. And as I've been reflecting on this meeting, I hope Anna and Greg are still there, because I really -- for the benefit of the community, I hope that you-all take as long to reflect and ponder and talk and discuss and question and criticize and all that.

We've been meeting since 9:00, which is four hours just on this one issue. And as I understand it, City Council has only allocated four hours to consider the whole thing.

So I think the council's fiduciary responsibility is to take a lot longer time than is on the time line, and I would urge them to do that.

CHAIRMAN SMITH: Any other questions or comments?

Okay. Seeing none, we will now move into the FIAC portion of the meeting. We'll start out with some questions or comments. Also, this is the point where we would -- where the Chair would entertain a motion to perhaps choose one of the recommendations.

MR. LEWIS: Mr. Chairman, I would propose tabling the motion that the FIAC recommend to the Board of Trustees for their consideration the adoption of the 1.25 percent payroll tax -- excuse me, payroll growth assumption for consideration into the impact study.

CHAIRMAN SMITH: Let me make sure I understand. So you used the word "table." So you're not tabling the motion. You're putting forth the motion on the table --

MR. LEWIS: For discussion.

CHAIRMAN SMITH: So you want to -- your motion is to break it into pieces. You want to start with the payroll growth assumption?

MR. LEWIS: Correct.

CHAIRMAN SMITH: So there's a motion on the floor to go with the 1.25 percent payroll growth assumption.

Now, this is the assumption that the expert that the Police and Fire Pension Fund Board of Trustees hired, and also the actuary liked. It was also presented in the third alternative, but it is different than the 1.5 percent that the City of Jacksonville proposed.

Is there a second on that motion?

MS. DEVINE: I'll second it.

CHAIRMAN SMITH: Okay. A motion has been moved and seconded. So let's have discussion.

MS. DEVINE: I agree, the more conservative number in light of the fact that this is evolving from open to closed, whatever we can do to try to bridge that seems the more rational, more conservative approach.

It's not material enough. I'm not sure exactly how everybody else would want to vet that decision there or that recommendation, but I think that it's moving in the right direction.

MR. KOWKABANY: I would agree with that. It's really the only latitude that we have that I'd be comfortable recommending.

MR. VANPELT: Well, to me (indiscernible).

CHAIRMAN SMITH: Still real money.

MR. VANPELT: I think given the history of the deficit we've had in our funding, that we should -- if we're prudent, we should take a more conservative route.

CHAIRMAN SMITH: All right. Any other

discussions? Seeing none, we'll move into a vote.

All in favor of the motion to recommend to the Board of Trustees a payroll growth rate of 1.25 percent, signify by saying aye.

(Responses of "aye.")

CHAIRMAN SMITH: All opposed?

(No responses.)

CHAIRMAN SMITH: Motion carries.

Now we're on to the second portion, which is the estimated surtax revenue growth rate assumption.

The options we were presented was 4.25, which was an option that the City of Jacksonville felt comfortable with. That was also included in the third alternative. However, we have an expert hired that felt more comfortable with the 3.34 percent assumption. So is there any -- is there any -- the Chair will entertain a motion.

MR. VANPELT: Can I make more comment on that?

CHAIRMAN SMITH: Certainly.

MR. VANPELT: You know, I still go back to our original comments made by our attorney, which is, we have to look solely at the benefits of the employees of the pension, the beneficiaries and employees of the pension.

So even though there's been a lot of discussion about the fact that any recommendation we make is probably not going to be accepted by the city, that does not -- you know, if we take into consideration our counsel's opinion, that doesn't dissolve us of having anything that's different from that.

MS. DEVINE: I would add to that, that -- I agree with you, that it's segregating what it is we don't deal with and what we do consider here.

With all due respect, I feel like the work is constrained by the time period, the inability in this regard to be able to really kind of go back, you know, 70-plus years and what have you to assess really a variety of environments, the lack of robustness, extremely well thought out, but I'm not sure what the right number ultimately would be.

And I keep -- I know the dispersion of 4.25, 3.34 percent is also real money. I would be okay ultimately recommending the 4.25 percent with the confidence that the city is obligated to fund the plan. That gives me at least the peace of mind that the beneficiaries are going to receive their benefits, if I understood it all correctly, which is what I was trying to get to the bottom of: Are we doing any harm to the beneficiaries ultimately by not going with the 3.34?

Again, ideally, the more conservative number, the better always. But each year, if we're discussing this, acknowledging that the number is going to be assessed by council, City Council and what have you, I don't know whether or not it's effective to try to come up with a new analysis to try to assess where that number is. That's my struggle.

MR. VANPELT: And I agree with your comments. I think my biggest concern is going back toward our direction again. The other thing was for the 4.25, we really didn't get a lot of presentation as we went back -- you know, the city presented it. There's no real presentation, and it said we have to base it on competent and substantial evidence.

You know, it gives me comfort that it's going to be reviewed. We're not talking about something that will lock us in for 43 years or whatever. But still, I didn't see a confident and substantial review of this 4.25.

CHAIRMAN SMITH: And to your point when you talked about our expert, and then he was constrained by the relatively short period of time with the data he had to look at, my understanding is -- and, Mike, I'll ask you this.

You looked at this same period of time -- no, you looked at a shorter period of time, right? You looked at three, five and seven years for sales tax?

MR. WEINSTEIN: No. We looked at the inception of the Better Jacksonville, which I think was in 2000. We looked at it from the beginning and felt comfortable again. We wouldn't have felt comfortable if we were locked into it more than year by near. That's sort of the safety valve that's imbedded in it.

But, yeah, we do have the responsibility every year to pay. We don't have a choice, and it comes off the top.

And somebody mentioned the liquidity. The liquidity ratio is, yes, you have five years, but that's if no other dollars come in. And by law, the first thing we pay is the ADEC and we still have employees. So there's still money coming in. So a ratio of five is, yes, you only have five years left to pay it, but more money is coming in every year. So it's not as if it's a locked program.

Again, we tried to balance everything and we tried to make sure that we have safety nets for the fund, and we stand by what we've recommended.

CHAIRMAN SMITH: Dr. Pertner, would you respond to his comments, kind of looking at the time frame --

DR. PERTNER: I'm looking -- when I look at the 3.2 since inception that was quoted by the city, naturally you could take your end value -- they're projecting $80 million, like a 4.84 by the end of fiscal '17, and I assume they've included that as well.

If you're looking at long-term, and they say since inception, that would include all the years of the recession. That's 3.2. That's an average of averages, not a compounded.

So with respect to the compound average, as you see that, within that range that we discussed a little bit about from the beginning of our recession to the end of when we're clearly out of it, you want to look at that and the future as how it compares to what's happening now.

Like I said, '15, starting to see an arch. '16, we're starting to see whatever '17 is going to lead to. And, again, we're talking about strength on return. We're not talking about actual dollars coming out of there. Are you seeing something that's sustainable?

But, you know, with all due respect, I was here to offer you my opinion based on what I thought, and certainly it's up to you to do what's in the best interest of your pensioners.

CHAIRMAN SMITH: Any other comments, questions, discussion, or do we have a motion?

MS. DEVINE: I feel like we have to figure out whether we want to anchor our considerations on the most conservative advice we can get, acknowledging our restraint in terms of, you know, what we're going to impact here.

But we're sharing with the Board -- it's almost a philosophy in terms of what's in the best interest.

And so for best efforts, we've employed an expert to give us the best efforts, and that's a more conservative number than what the city has, in their best efforts, come up with. But I'm --

I'm still trying to figure out how to anchor my decision ultimately on this recommendation to the Board on this particular data point.

MR. KOWKABANY: Well, and if we did recommend the 4.25, we still have this comment period that would be forthcoming that we would have an opportunity to weigh in.

So if it was 4.25, recommending it with prejudice, if you will, with the understanding we could, you know, comment later, that there will be a time frame, correct?

CHAIRMAN SMITH: My understanding is that there's a time frame for comment, but does comment -- what does the comment do?

If you choose one number over the other and say, I'm not sure that was the right number, I'm not sure what the comment does other than --

MR. KOWKABANY: Well, I'm not comfortable with either number, honestly --

CHAIRMAN SMITH: -- other than if you didn't have a unanimous vote and maybe you could say as a minority member, we thought we should have chosen a different number for whatever reason.

MR. KOWKABANY: Well, Brian, I'm not comfortable, frankly, with either number at this point. But if we have to -- you know, we have to come to a decision today, if I'm understanding correctly.

MS. DEVINE: I think that's a key point.

CHAIRMAN SMITH: Bob, did you have --

MR. SUGARMAN: As I said at the beginning, this is a way out. You can say that we've been told by the general counsel that we must accept the city's number.

In other words, you can accept the city's number based upon the advice that you must, if I'm not, Jason, misinterpreting what you said.

MR. KOWKABANY: That's sort of the overlay here, isn't it?

MR. SUGARMAN: As I said earlier, that's the way out. I don't know if it's the one you want to take, but because you've gotten the opinion of the general counsel delivered by himself today that you can rely on that to protect you, and his opinion is that you -- that the city's number is the one that should be used in this actuarial valuation impact statement.

Am I right on that, Jason?

MR. GABRIEL: Yeah, I think so in so many words. I mean, again, this is just an evaluation through the actuarial calculation.

You have a lot of assumptions that are in your domain that you decided to pursue one, which is 1.25 you've just chosen.

Our -- I guess our proposition is very simple. The surtax issue, just that issue, as big and as profound as it might be, that particular value is something that the city decides.

And so in conjunction with what Mr. Sugarman just said, is you could take that as this is your legal counsel's advice to you, is to use that variable or that value in your analysis through the impact statement.

Now, any other editorial, you know, and all these philosophies that obviously are, you know, well within the purview of your discourse, certainly can be proposed and conveyed through your review and commentary.

MR. SUGARMAN: And if I may further.

By the way, the City Council and the city administration have an out also. Their out can be if you were to recommend the 3.34. Because, remember, I told you that you're bound to provide them with the actuarial impact statement.

They're not bound to follow it.

They can say, well, thank you very much for recommending a 3.34, but our lawyer tells us you never had the power to set that to begin with. So we're going to stick with our 4.25 that our staff recommends to us.

And we have provided them, through Pete's work, with draft impact statements that show the numbers on that. Remember, the law just requires us to give it to them. It does not require them to follow it. So you really have a lot of options here.

CHAIRMAN SMITH: Craig, did you have any comment?

MR. LEWIS: Yeah. I mean, I agree with you, Tracey. I mean, for me as well, I'd like to be able to base this on a fundamental sort of principle, and the 4.25 does seem to be kind of aggressive.

There's an inherent conflict that's sort of been talked about here several times today imbedded in that, but at the end of the analysis, the City of Jacksonville still has to stand behind the pension plan.

So they may put in $13 million less this year or the coming year vis-à-vis an assumption based on 3.34 percent, but their responsibility and the financial support ultimately that has to be there doesn't go away.

So from my perspective, that is, you know, I think a mitigant to perhaps making a recommendation where we're just looking, you know, on an isolated basis that, you know, two rates that -- neither of which probably will end up being accurate in reality.

But, you know, the fundamental plan sponsors that status of the city will still be there with some of the safeguards and hopefully protections that Mike alluded to in terms of ensuring a cushion from liquidity and other perspectives, I'm comfortable with sort of adopting a pathway that recommends, you know, a level that the city and their counsel have proposed for consistency with the other two plans, for consistency with their own planning purposes overall despite the fact that, you know, it doesn't really take away the near-term conflict, I think the long-term conflict resolves itself just from the nature of their sponsor status here.

MS. DEVINE: Very well put.

CHAIRMAN SMITH: So, ladies and gentlemen, we need a motion.

MR. LEWIS: So with that, I will move that the FIAC approve for recommendation to the Board of Trustees the incorporation of a 4.25 percent assumption for the surtax growth to be incorporated into the impact assessment.

CHAIRMAN SMITH: It's been moved. Is there a second?

MS. DEVINE: I'll second it.

CHAIRMAN SMITH: It's been moved and seconded. So we'll open the floor for discussion on this particular motion. I know we may end up reiterating stuff, but now we're talking about the actual motion on the floor.

MR. VANPELT: Again, where I have difficulty with it, again, is the fact that we have gotten something of a presentation to tell us the facts behind the 4.25, I'd be okay with the motion if we just -- if we went to the fact the OGC has said we really have no authority in this area, and so, therefore, we recommend what the city has given to us as the number and we accept there's a variable in our plan.

But I have a difficult time when I'm

supposed to opine my decision when this is no presentation.

MR. KOWKABANY: So could that be an amendment that we will accept it but for the fact that, you know, we really have no choice and we're following the direction of our legal counsel? Would that -- you know, that's not what you propose, but is that --

CHAIRMAN SMITH: If you -- if you move it, it can be an amendment.

MS. DEVINE: I would agree. We're acknowledging that we don't really commend, so to speak, the 4.25. That's not what we're doing here.

MR. KOWKABANY: Right.

MR. SUGARMAN: The motion would be amended to read, based upon the advice of the Office of General Counsel, I move to approve the city selected rate of 4.25 percent.

Jason, does that -- your advice is that the city has the right to select the right; is that right? I want to make sure I'm using the right word. The city selected rate.

MR. GABRIEL: Yeah. You know, and to me the decision -- you know, yes. I mean, we are telling you that the city is the authority for purposes of the surtax. So that's what I've said for the fourth time.

MR. KOWKABANY: I would -- I would propose that we make that amendment.

CHAIRMAN SMITH: Can you state the motion for the committee?

MR. KOWKABANY: That we -- that we amend our proposal to accept the city's 4.25 percent growth in the city's surtax, as our counsel has indicated, in that we have no discretion on the matter.

CHAIRMAN SMITH: So under the advice of the Office of General Counsel --

MR. SUGARMAN: It could be worded, based upon the advice of the OGC, I move to recommend the surtax growth rate of 4.25 percent as -- because it was selected by the city.

MR. KOWKABANY: Okay. Based on the advice you got.

MR. SUGARMAN: Somebody can say so moved.

MR. KOWKABANY: Yes.

CHAIRMAN SMITH: So is there a second?

MR. LEWIS: Second.

CHAIRMAN SMITH: Okay. It's been moved and seconded. Now we're voting on the amendment to the original motion. This is only on the amendment.

Is there any discussion on the amendment, which is to say that the 4.25 percent recommendation is based upon the advice of the city's Office of General Counsel? Any discussion on that?

(No responses.)

CHAIRMAN SMITH: Seeing no discussion, we'll move into a vote on the amendment to the original motion. All in favor, signify by saying aye.

(Responses of "aye.")

CHAIRMAN SMITH: No opposition. The motion carries unanimously.

Now we'll move to the original motion on the floor, which was the 4.25 recommendation. Is there any discussion on that?

(No responses.)

CHAIRMAN SMITH: Okay. All in favor of the motion to accept the surtax revenue growth rate of 4.25 percent, signify by saying aye.

(Responses of "aye.")

CHAIRMAN SMITH: No opposed. With that, our recommendation to the Board of Trustees is a 4.25

percent surtax revenue growth rate, with a 1.25 percent rate of payroll growth as our impact statement recommendation to the Board of Trustees.

And at this point, we will adjourn.

CHAIRMAN TUTEN: Thank you guys. We appreciate the input.

MR. BROWN: I make a motion that we accept the impact statement as 4.25 percent sales tax growth rate and 1.25 percent payroll growth rate.

MR. PATSY: Second.

CHAIRMAN TUTEN: We have a motion and a second. Okay. We'll call for the comment.

Bill, you got any comment?

MR. SCHEU: Yeah. I would like Jason to give us a written opinion that we have no discretion on the assumption related to the sales tax growth. I think that's important for us, as Bob said, that we can rely on that advice. It's really more than advice. It's really a direction from our general counsel.

And I would like that opinion, that written opinion, to also state, once again, that under the charter, the opinion of the general counsel trumps that of Mr. Sugarman, although we respect

Mr. Sugarman greatly and appreciate his advice, that we're bound under the terms of the Charter of the City of Jacksonville to accept the direction of the Office of General Counsel.

CHAIRMAN TUTEN: I think we've already gotten something from that -- from Jason one time similar to that, didn't we, a while back.

MR. SCHEU: I don't think so in writing. I think Jason knows what I mean.

CHAIRMAN TUTEN: Okay. How about we focus on the motion first.

Jason, did you catch all that?

MR. GABRIEL: Yes. I think the email that we sent on Saturday with the attached memo is essentially the analysis in writing, but if you need something further, I'm happy to do that as well.

MR. BROWN: Bill, we got the opinion from Steve Durden, I believe, that explains that we are bound by the city selection.

MR. SCHEU: Yeah, I read that. And as long as Jason confirms that that is a binding opinion under the charter, then I'm happy.

MR. SUGARMAN: Yeah. There's different levels of opinions I'm not familiar with. Some have numbers on top and some don't. But as long as --

MR. GABRIEL: What I can say on the record is that I stand by and completely support the opinion that was issued Saturday through Steve Durden, and he spoke for the office in terms of that counsel.

MR. SCHEU: And, Bob, is your judgment, does that comport with your advice to us, that we could rely on that?

MR. SUGARMAN: Yes. I believe that you can rely on the opinion of the general counsel. I'm not familiar enough to know the difference between Jason's statement plus Steve's memo compared to the more former opinions that have -- that have numbers on the top.

I would defer to the OGC on exactly what the difference is, if any, and how you can rely on those.

MR. SCHEU: All right. The only question about the motion, do we need to also include that we're mandated by the statute to accept the 30-year amortization?

MR. SUGARMAN: I would prefer to hear the motion worded as, based upon the recommendation of the advisory committee and for the reasons stated therein, which refer back to Jason's opinion and --

CHAIRMAN TUTEN: Our experts.

MR. SUGARMAN: That's right. And also that based upon the statute dealing with the 30-year amortization, that we're recommending this.

MR. SCHEU: Okay. Thank you.

MR. BROWN: So I guess my motion would be amended to accept the legalese that our attorney has just given us.

MR. SUGARMAN: Right. I think the motion would make clear that you're accepting the 30-year amortization per the state statute, you're accepting the 4.25 due to the opinion of the Office of General Counsel, and you're accepting the 1.25 through the recommendation of your actuary.

That's the -- if somebody said, why did you do these three things, that's for three different reasons, and if it's clear in the motion, then nobody has to go back and ask it.

MR. BROWN: Makes perfect sense.

CHAIRMAN TUTEN: So you're reframing the motion to that.

MR. BROWN: I think we've captured it all in the record and I think --

DIRECTOR JOHNSON: Do you want to move to accept what Bob --

MR. PATSY: And I still second it.

MR. BROWN: So my motion is going to capture everything that was said in the last 90 seconds. And you do second that motion?

MR. PATSY: Correct.

CHAIRMAN TUTEN: And just so we're clear, for 1.25 payroll growth and to accept the city's 4.25 because of the legal requirements we have to accept.

MR. BROWN: For reasons stipulated by the various experts.

CHAIRMAN TUTEN: Perfect. All right. We've got a motion and a second --

MR. SCHEU: And the 30-year amortization because of the statute.

MR. BROWN: Yes. All three components for the three different reasons.

MR. SCHEU: Right. And I assume Bob will legalese that up for the actual notes.

MR. SUGARMAN: Yes, yes. If you could send me those notes, we'll do that.

CHAIRMAN TUTEN: Okey-doke. Great. Motion and a second.

All in favor?

(Responses of "aye.")

CHAIRMAN TUTEN: Any opposed? No. Four to zero.

MR. SUGARMAN: So where we go from here, Mr. Chairman, is that Pete will prepare a actuarial impact statement including those.

MR. STRONG: It's already done.

MR. SUGARMAN: It's already done. But that one has the signature on it. It needn't be signed. I want that, and then Tim will formally convey that to the City Council. Then our responsibility for part one is done.

MR. SCHEU: Will you give us a little bit of an explanation about how and when we comment? Because I do think it's appropriate for us to comment that the 3.34 is well thought out and council ought to consider that.

How do we do that?

MR. SUGARMAN: All right. Let me back up to Richard's question you might not have heard, and that is the signature.

The signature line here says, I believe the amendment to be in compliance with Part 7, Chapter 112, Florida Statutes, and Section 14, Article XI of the Constitution.

As I said, we don't have at this Board the authority to decide whether something is or is not in compliance with the Constitution. So I would not recommend to Tim as plan administrator to sign that.

MR. STRONG: Okay. We can take that out.

MR. SUGARMAN: I think what he should sign is that this is the impact statement that was adopted by the Board of Trustees on April 10th. That's all he needs today.

MR. STRONG: I can change the wording.

MR. DURDEN: Doesn't the statute require him to say that it's done pursuant to the statute and reasonable?

MR. SUGARMAN: No. That's for the actuarial valuation. That's the annual valuation.

MR. STRONG: An impact statement has less, you know.

DIRECTOR JOHNSON: All right. What about the public comments?

MR. SUGARMAN: That's our next task. Our comments, I should say. That's our next task of -- and when do we need to get that to council?

DIRECTOR JOHNSON: Next week on the 20th, there is a City Council meeting to consider public comment. I think it's a 1 to 5 special meeting. Should we have our public comment to council in time for that meeting?

MR. SUGARMAN: We have a different role, of course, than the public. We have a role given to us by the city charter.

CHAIRMAN TUTEN: We have a deadline. We have a deadline to get that to council.

MS. BROSCHE: My schedule shows that that meeting is on Wednesday, April 19th, with a following meeting on Thursday, the 20th. So it might be both.

DIRECTOR JOHNSON: Right. So it might be best if we have it for Wednesday, the 19th.

MS. BROSCHE: Yes.

DIRECTOR JOHNSON: Is there a deadline for when documents have to be submitted to be on the agenda?

MS. BROSCHE: I don't know. I would have to check with the council president.

DIRECTOR JOHNSON: All right. The sooner the better, I guess.

So how do you want to handle this?

MR. SUGARMAN: That's really rushing things because the Board has to have a meeting. Is there another opportunity that the council will be considering this? Because it says, prior to adoption. That's the deadline in the -- in the ordinance, in the charter.

CHAIRMAN TUTEN: Well, Bob, could we give you authorization now for you to put this together and just send it to us and the council or, you know, just based on our legal concerns, et cetera, et cetera, or do we actually have to come back and approve your report?

MR. SUGARMAN: Our comments have to be submitted, according to the charter, before the last public hearing is held by the council.

MS. BROSCHE: That's tomorrow.

DIRECTOR JOHNSON: The 20th isn't a public hearing? I thought it was. I thought tomorrow's meeting was to consider the other 12 legislations relative to the labor agreement.

MS. BROSCHE: Maybe counsel can speak to this.

DIRECTOR JOHNSON: Steve or Jason, you've heard the discussion. We're trying to figure out our deadline for submitting comments.

MR. GABRIEL: Right. We're pulling up -- so there's the charter and there's the ordinance code, and there's -- so there is two requirements, but there's also the two things you're doing. There's the impact statement which you've just done, and then there's a review and comment.

I believe the impact statement had to have been or has to be before the council by that hearing, which would be tomorrow, which you're accomplishing that.

The question is the review and comment, and we're pulling that up right now.

DIRECTOR JOHNSON: Okay.

MR. GABRIEL: Just general speaking, in order for council to adequately take into account the review and comment, I would recommend that it definitely be by the time that they take this up in their committee. And whatever that committee of the whole meeting would be, again, before that would be the first opportunity for counsel to actually take some sort of action.

And if you want your comments before them by that time, I would say at a minimum, it would be that. But we're pulling it up right now.

MR. SUGARMAN: Right. The section, Stephen, in the charter is 121.04.

MR. DURDEN: That's the ordinance code.

MR. GABRIEL: Bob, you may want to read that one, though. What does that one say?

MR. SUGARMAN: The charter says before the last public hearing. 22.07 says -- also of the charter says, "No legislature shall be adopted by City Council altering the terms of the pension fund without it having first been referred to the Board for its consideration and comment."

There are no deadlines there.

MR. GABRIEL: Yeah, that's why in terms of the reviewing comment, I would suggest -- and there is no deadline for the review and comment except you're bound by the legislative cycle. So council could technically at some point just vote on it.

So what I'm recommending is that your review and comment be before the council on or before the time that they take it up in committee, whatever that date is.

MR. SUGARMAN: Right. 121.04 also says, "Prior to the adoption of any proposed legislation, the legislation shall be presented to the board for review and comment. The council should consider the comments, but shall not be bound by them."

So when was that committee -- what's the schedule on the committee?

MS. BROSCHE: Wednesday, April 19th.

MR. SUGARMAN: That's the committee as a whole?

MS. BROSCHE: At 1:00. Yes.

MR. SUGARMAN: We have to relay -- what's our deadline?

MR. GABRIEL: Yeah. If the committee of the whole is the 19th -- I don't have it in front of me, but if Ms. Brosche is citing the committee as a whole on the 19th, then I would say that on or about the 19th you'd want to have your review and comment.

DIRECTOR JOHNSON: Okay.

MR. SCHEU: Can we have a special meeting on Monday? Would that suffice to give him time to write up any comments we have?

MR. BROWN: If everything was articulated during this meeting, and I believe it was, can't we rely on our legal counsel to summarize everything that was said here articulated by the board members when it comes to concerns on the whole and allow him to craft a letter that reflects our different -- our different criticisms or opinions that we would like the City Council to take under advisement?

MR. SUGARMAN: I haven't really heard all of those because we restricted the conversation today to just the actuarial impact.

MR. BROWN: So we would need to meet again before we submit something to the City Council. And then I'm understanding that next week, that's the first meeting they can actually take action. Even though it may not be their last public hearing, OCG is recommending that we have something submitted to them by then because they can take action, correct?

DIRECTOR JOHNSON: He's saying have it done by the 19th, which is next Wednesday. So we've got two days prior to that.

MR. GABRIEL: The other option is to wait until the last date of when council takes it up, but by that point, you've passed the committee workshop stuff.

CHAIRMAN TUTEN: We need to have it ready by next Wednesday. It's something they need to have.

MR. SCHEU: Perhaps Bob could do a draft of something as to what he's heard so far. Well, I don't know. I'm thinking that we could add on to it and meet, because I don't think we can -- the Sunshine Law would not let us circulate drafts among each other.

MR. BROWN: If I could through the Chair, I'd say that's a good idea to go and draft something that reflects what has been said, but knowing that's not going to be comprehensive, I would ask if the other board members are able to convene next Monday. That would be my first available time.

MR. PATSY: 9 o'clock. I could do that.

MR. BROWN: Anytime Monday is fine.

CHAIRMAN TUTEN: Monday is fine.

MR. SCHEU: I'm flying in in the morning and can get there by lunch, go all afternoon, but not in the morning.

(Off the record while trustees confer as to scheduling.)

CHAIRMAN TUTEN: We're adjourned.

(The meeting adjourned at 1:32 p.m.)

CERTIFICATE OF REPORTER

I, Denice C. Taylor, Florida Professional Reporter, Notary Public, State of Florida at Large, the undersigned authority, do hereby certify that I was authorized to and did stenographically report the foregoing proceedings, pages 3 through 213, and that the transcript is a true and correct computer-aided transcription of my stenographic notes taken at the time and place indicated herein.

DATED this 8th day of May, 2017.

____

Denice C. Taylor, FPR
Notary Public in and for the
State of Florida at Large

My Commission No. FF 184340
Expires: December 23, 2018