JACKSONVILLE POLICE AND FIRE PENSION FUND

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

DATE: January 18, 2017

TIME: 2:00 p.m. to 3:45 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
Chris Brown, Trustee

FIAC MEMBERS PRESENT:

Brian Smith, Chairman
Rodney VanPelt
Rob Kowkabany

STAFF PRESENT:

Timothy Johnson, Executive Director,
Plan Administrator
Debbie Manning, Executive Assistant
Devin Carter, CFO
Robert Sugarman, Board Counsel (via phone)
Jarmon Welch, Pension Board Consultants
Pete Strong, GRS

CITY REPRESENTATIVES PRESENT:

Steve Durden, Office of General Counsel
Anna Brosche, City Council Liaison

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SPECIAL MEETING OF THE POLICE AND FIRE PENSION FUND BOARD OF TRUSTEES AND THE FIAC

January 18, 2017 2:00 p.m.

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CHAIRMAN TUTEN: Let's get started. Call to order. We'll start with the pledge of allegiance, and then we'll have the public speaking period next.

DIRECTOR JOHNSON: Everybody rise.

We pledge allegiance to the flag of the United States of America, and to the Republic for which it stands, one nation, under God, indivisible, with liberty and justice for all.

CHAIRMAN TUTEN: All righty. Thank you, guys.

We don't have anybody deceased, so that's good.

Public speaking period. Mr. Winkler. State your name.

DIRECTOR JOHNSON: You can do it here if you'd like.

MR. WINKLER: Thank you.

CHAIRMAN TUTEN: If you don't mind, Mr. Winkler, you've got two on this end that don't hear too good, so speak up.

MR. WINKLER: Project?

CHAIRMAN TUTEN: Perfect. Project.

MR. WINKLER: John Winkler, 2515 Oak Street, 32204.

I just want to say, particularly since going forward, I think it's very unlikely that you'll be going back to an 8.4 percent DROP interest assumption rate, that some consideration ought to be given to -- for future purposes, separating out the DROP funds from the balance of the plan funds.

I don't know exactly how they're taken into account right now for purposes of the long-term annuity contracts that can go on for half a century or more, but obviously all of that is even more imperatively going to be need to be taken into account if, in fact, the current PFPF winds up closing sometime between now and October 1st.

So I just would like to see that if there is consideration given to a new set of actuarial assumptions, looking at the next fiscal year, which presumably would be mandated by 116.64(6), if, in fact, you have closure of the plan and you have an agreement with the -- with the two unions, that that be taken into account, both because you have that 30-year mandated actuarial payback period, and also because you've got those very strange provisions of 116.64 that regard the way in which you're supposed to somehow account for the future value of a tax that doesn't start until 2031, discounted back to present value, and then apply it against your UAAL.

I'm not sure how any of that is supposed to be done. The administration hasn't been very forthcoming with any figures about this so far, but I do think that's something that has to go into your thinking right now as you're looking at what you're going to be asking for in the coming fiscal year.

CHAIRMAN TUTEN: Well, your concern is noted, Mr. Winkler. And for the record, just for now, a lot of that is going to depend on what happens with the unions.

MR. WINKLER: Obviously.

CHAIRMAN TUTEN: And that's -- personally I think October 1st might be a little hopeful on your part, but we'll see what happens.

MR. WINKLER: That's devil's advocacy on my part.

CHAIRMAN TUTEN: We got you on the record, and you can always come back at another time, update us. Thank you, pal.

MR. WINKLER: Okay. Thank you.

CHAIRMAN TUTEN: All right. Mr. Lee, you're up.

MR. LEE: Hello, Mr. Johnson.

DIRECTOR JOHNSON: How are you, sir?

MR. LEE: The unwrapped one is for the other councilwoman.

DIRECTOR JOHNSON: Do you want them to have this now?

MR. LEE: Yeah. If you'd just -- if you would pass them around.

DIRECTOR JOHNSON: Sure.

MR. LEE: My name is Curtis Lee, 7124 Claremont Creek Drive, Jacksonville, Florida, 32222.

I'm delivering envelopes to Mr. Johnson and the trustees of the Jacksonville Police and Fire Pension Fund, and the unenveloped one is for the councilwoman. So everyone should have one of these envelopes.

At any rate, they show and discuss recent violations of the Public Records Act. Please read these materials and please respond promptly. It's disappointing to me that I should have to write again regarding violations of the Public Records Act, and I hope not to have to keep on doing this. Thank you very much.

MR. SCHEU: Could I say something?

CHAIRMAN TUTEN: Sure.

MR. SCHEU: Mr. Lee is or was a lawyer and he has sued us and this is -- he should communicate with us through our lawyers, not person to person.

MR. LEE: This is post -- this is post-lawsuit stuff --

MR. SCHEU: He should deal with his lawyer to our lawyer.

MR. LEE: This is post-lawsuit. This is different stuff.

CHAIRMAN TUTEN: I agree.

Yeah. For future reference, Mr. Lee, anything like this, just keep it through the lawyers because we really don't have time to read things --

MR. LEE: This is not part of the --

CHAIRMAN TUTEN: I'm not going to -- nobody here is going to respond personally to you. So just try to keep it with the legal guys.

MR. LEE: Your position would mean I could no longer make public records requests directly to Mr. Johnson, that I would have to make them through the city OGC, which is unlawful. You can't tell me to do that.

MR. SCHEU: He's complaining about responses to prior requests. He can make a public records request. This is completely about other stuff, not making a public records request. Keep it to the lawyers.

MR. SUGARMAN: This is (phone malfunction).

CHAIRMAN TUTEN: Well, it's always an improving process and we're doing the best we can. I think --

MR. SUGARMAN: Debbie --

MS. MANNING: Yes.

CHAIRMAN TUTEN: -- and I don't have time to go through actually what this is about.

But, Tim, if you want --

DIRECTOR JOHNSON: I will follow up.

CHAIRMAN TUTEN: Okay.

Thank you, sir. That will do it for the public speaking.

Debbie looks like she's trying to get

somebody on the phone.

MS. MANNING: Mr. Sugarman, can you hear us? Mr. Sugarman.

MR. SUGARMAN: I could hear voices in the background. This is Bob Sugarman. I can't make out what's happening.

MS. MANNING: Okay. Well, we were doing public speaking and now we're going to start into the meeting. So let me know if you can't hear okay?

MR. SUGARMAN: Yeah. So far I can just barely hear you. I'm using a land line today.

DIRECTOR JOHNSON: Why don't you try just hanging that up? You've got him on hands free. Just hang up the receiver. He can probably hear better.

All right. I've got a brief statement to get us started today.

We're here at the direction of the Police and Fire Pension Fund Board to review the 10/1/16 Actuarial Valuation Report.

Now, that report contains valuable information and it includes the latest official assessment of the fund's unfunded liability along with a 2017 minimum city-required contribution.

This is the contribution that the city will make in December of this year.

The Board received a draft of this report at the December Board meeting and determined at that time that a special meeting should be scheduled, allowing for our current actuary to present the details of the report before our required January 31st submittal to City Council of the report.

Of particular interest is the 44-million-dollar increase in the retired contribution -- in the required contribution over 2016.

Questions such as, what caused the increase and are there options to mitigate it that are available to the Board were discussed.

Options were suggested by the Board actuary to the Board. And, additionally, as executive director, I was directed to contact the State Division of Retirement and request guidance on other options; namely, a phasing in of the payroll growth rate. Copy of that correspondence is included in your Board book behind my tab.

I wanted to take a minute to acknowledge some of the new faces behind the table. So in addition to our four Board members who are here, I wanted to let you know that Willard Payne is excused today due to illness.

But Jarmon Welch is here. It's my first time meeting Jarmon, although we've had dozens of conversations on the phone. He's here representing his firm. Also, our new actuary, Pete Strong, from GRS, is here.

We also have members of the Financial Investment Advisory Committee. And by phone is the Board's new external legal counsel, Bob Sugarman, of Sugarman & Susskind.

For the benefit of the public, the contents of the Board book are on the big screen. So Jarmon will have the opportunity to guide you through the pages and you'll have the ability to see everything that's in your book on the screen.

There were a dozen or so copies of this made available to the public. Hopefully those have been distributed.

MR. SUGARMAN: Could the microphone be moved closer --

DIRECTOR JOHNSON: And this will be posted on the website as well.

MR. BROWN: He's asking if this can be moved closer. I'm not sure.

MS. MANNING: Yes. The only thing, with the receiver on there, he can't hear it as well. So let's try -- Mr. Sugarman, you're in the middle -- you're in the middle of the table. So it's a broad table. So I apologize. I think I've got the volume up as high as it will go.

Does that help at all?

MR. SUGARMAN: Yeah. I can hear you fine. I can barely hear the others.

DIRECTOR JOHNSON: Bob, she's right next to the receiver. That's why you can hear her.

Can you hear me?

MR. SUGARMAN: I can now, yeah, but I know that you're speaking louder than usual.

DIRECTOR JOHNSON: All right. We'll do our best. Jarmon is going to be a distance away from the phone, but we will do our best to move you as close -- or the receiver as close to Jarmon as we can get. And if you have questions, just speak up as loudly as you can and I'll repeat your question for the benefit of the Board members and the others.

MR. SUGARMAN: Okay. Thank you.

DIRECTOR JOHNSON: So with that, I'll turn it over to Jarmon, who will present his report.

MR. WELCH: Well, first I would like to thank the Board of Trustees and the police and fire that have hired me --

MR. SUGARMAN: I'm sorry, Debbie. I can't hear him at all.

MR. WELCH: -- for the last 35 years to be the actuary --

MR. SUGARMAN: I'm sorry. I can't hear Jarmon at all.

DIRECTOR JOHNSON: I'm sorry, Bob. You might not be able to. I'm going to get you as close as I can, but if you can't hear, then there's nothing we can do about that.

All right, Jarmon.

MR. WELCH: It's been a good ride and this is my last hooray, as they say. So --

MR. SUGARMAN: This isn't going to work.

Can he possibly trade seats with Debbie? In the future, I'm just going to have to come to these meetings or we can get a better speaker phone. I want to listen. I'm not calling in on a cell phone.

MS. MANNING: Jarmon, do you want to sit at your chair?

MR. WELCH: Sure.

MS. MANNING: Sit at your chair and see if that will help him.

MR. WELCH: Okay.

MS. MANNING: I'll turn it more towards him. Here's your papers, Jarmon.

MR. WELCH: I'll stand for a few minutes.

Before going into actual matters, I would like to point out that an actual report and actual numbers are model numbers and not real numbers. They're numbers that have a certain probability of occurring.

And like long-term capital management who made billions of dollars with those -- one of the sophisticated financial people, it works until it don't work.

And so the actual model that we had in the public plan area worked in the '80s and '90s. It doesn't work now. It doesn't work because there are, like, 1,500 public pension plan actuaries, and we use high interest rates to calculate --

MR. SUGARMAN: Debbie, I'm going to change phones. I have another phone where I can put on the headset and maybe make it louder. I'll be there in about 30 seconds.

MR. WELCH: We use high interest rates to calculate liability.

Now, if I owe Richard $100,000 in 30 years and this other fellow owes Richard 100,000 in 30 years and I say I'm going to have zero risk that I'm going to pay Richard -- so I take my hundred thousand and I buy a 30-year zero treasury. It might be about 3 percent. So I would need 41,000.

If this other fellow comes along and he says, no, I'm going to put my money in a 60-percent stock/40-percent bond portfolio, which historically has earned 7 percent. And so I'm only having to put up 13,000 to cover Richard. But he's taking risks. He's taking a lot of risks, an unidentified lot of risks.

When I came in the profession in the '60s, we didn't talk about risks. We talked about, get the money from the insurance company in bonds and we're going to earn more in equities. That's a sales point, but we didn't realize we were changing the risks.

And even today we can't quantify risks very well. There are models that try to quantify it. And I don't have one in my firm. You might have one in your firm, but we don't quantify it.

So what is it we're doing? We have thousands of Richards here in this pension fund who are depending on a $13,000 -- to come up to your hundred thousand.

Now, we're doing it. What about the rest of the world? There's 1,500 of us pension actuaries. The pension plan profession investment takes the greatest risks of any institution in the world. What does the rest of the world do? Everybody else does it based on market value, based on the 3 percent analysis, including all the actuaries around the world, except us 1,500.

When we started doing it, my old boss described to me years ago, he started doing it because it was a sales pitch. You're in bonds. You're paying out in bond-like things. So the money comes in, the money goes out. And whatever bonds are worth in the market, that's what it is. But you move it over. You say, I'm going into investments, then I can do a lot more with it.

And along comes young, mathematical-type guys like me, and it never occurred to us that we should value these things in other than what we expected to earn on the investments. And so all around us we had that.

But you see, in the '80s and '90s, the stock market boomed. LTCM did great when things were great, but when things weren't so great, we don't do great.

So my first point is, the numbers I'm going to show you are woefully, woefully understated. I'm going to tell you based on 7 percent interest, the Richards of this group -- based on the 7 percent interest, you need 3 1/2 billion. But the state says to me, we don't want you to just use 7 percent. Use 5 percent. Well, based on 5 percent, you'll need another 1.2, 1.5 billion.

But the market says, based on the annuities that Richard will qualify in a year when he gets into the DROP, that based on annuities, you use 3 percent. In that case, we'd need $7 billion.

So I'm going to tell you that your unfunded is 1.8 billion. This other filing we make to the state says you're unfunded -- it's like 2.9 billion, almost 3. The market says your unfunded is like 5 billion.

So you have a model that worked great in the '80s because we made all those high returns, that worked great in the '90s and hasn't worked since.

And all across the country you have pension plans. Not just Dallas, Houston, New Jersey, Michigan. Everywhere. All of them are hollering because now all of a sudden they have something that didn't work.

And why didn't it work? It didn't work because we underpriced the things we were giving out. I mean, if you're a police and fireman here and you're coming up for retirement, every police and fireman is a millionaire. I mean, the average pension is 50,000 a year. It increases 3 percent. It costs you a million and a half to buy that in the market.

We didn't realize when we did that, when we set it up, that we were in this kind of game.

CHAIRMAN TUTEN: Well, Jarmon, let me stop you there, and I appreciate you explaining that.

When people ask me to explain what an actuary actually does on the job, usually I give them the blank stare, and then I explain there's a lot of variables involved.

MR. WELCH: Right.

CHAIRMAN TUTEN: And all you do is deal with the numbers that we give you or that you're allowed to assume by the state or the board or the city uses. And that's what's happened over the years.

Other variables that are involved are lack of pay raises for ten years. That's a variable.

The number of retirees that have grown over the decades, in the last 10, 15 years, has exploded because everything works on a 30-year cycle. People get hired. They work for 30 years. They retire. And so then you have almost like a balloon payment of retirees.

Well, these retirees get older and they move on to the next life, and then your payments will go down, and it's a cycle. But there's a lot of variables just besides what you're expected to do.

And what the average politician doesn't understand and what the average person doesn't understand is, when you play with those variables, up or down or even sideways sometimes, what you're talking about is you can make that picture either look a lot worse than it could be, a lot better than it could be. The happy medium is to try to find the realistic picture. But like you say, not everyone uses it.

I think what the state is trying to do -- because FRS is really well run. They're never underfunded by a lot.

MR. BROWN: Right.

CHAIRMAN TUTEN: Now, we could get into fundings and all that good stuff, but we won't repeat that again, but what I think FRS is trying to do on a local level, for people like Ms. Anna here, is to get everybody on board.

This is what we're going to use from now on. We don't really care too much how it looks in your hometown. Maybe it doesn't affect you that much or maybe it does, but this is what we want you to do from now on. There won't be any more, you know, 8 1/2 percent assumption, you know.

MR. WELCH: When you say the state, what do you mean?

CHAIRMAN TUTEN: What?

MR. WELCH: When you say state, what do you mean?

CHAIRMAN TUTEN: Well, like with the state actuary, the Board of Retirement, FRS.

MR. BROWN: The Department of Retirement Services.

MR. WELCH: And they admit that they're

underfunding their plan, woefully underfunding.

CHAIRMAN TUTEN: Well, and going forward, the key is going to be, okay, we've got this set of parameters we've got to deal with. How do we make it tolerable? Because we're not going to cut checks to retirees, you know, and mail them a letter saying, look, we're going to cut your pension --

MR. WELCH: Richard, they're not putting in enough money, nowhere near.

CHAIRMAN TUTEN: Well, that's -- that's what we deal with and that's what the city is tasked to deal with.

MR. WELCH: And that's what the advisors tell them. The advisors tell them they have like a 60 percent chance of not having enough money.

CHAIRMAN TUTEN: I understand that.

MR. WELCH: So they're part of the group I'm talking about. But there's a lot of misinformation that's continually grossed about.

Like you made the statement, no raises in ten years. The average increase in workers here in Jacksonville the last ten years has been 3.6 percent of pay.

CHAIRMAN TUTEN: Now, is that -- I'm not

going to get bogged down in whether that's proposed or all that kind of good stuff --

MR. WELCH: It's the truth, though. Let's don't get bogged down in the truth. It's 3.6 percent. And I showed it in my reports and I showed it in what I gave to you.

Now, in the last five years it's only been 2.5 percent. It's only been like the cost of living.

But let me go on with my presentation. My presentation is that now I'm going to show you numbers. They're not real numbers. They're model numbers. They're made up under certain models. They have a certain probability.

But before I do that, we arrived at -- under the model we used, of you have a 1.8 billion unfunded. And so I have a letter in there in which I described how that arose.

Is the letter sufficient or do you-all want me to talk about it?

CHAIRMAN TUTEN: Well, I think the dust-up from the mayor was the fact that this extra 44 million -- is it 44 or 43? I can't -- came out of nowhere. Of course, we had a meeting a year ago which explained all this.

MR. WELCH: Well, I'm talking about the 1.8 billion first.

CHAIRMAN TUTEN: Right. Well, this is -- I understand that, but that is where we're at, and that's going forward.

MR. WELCH: So you don't want to talk about the 1.8 billion? It's okay with me. I've given the information.

CHAIRMAN TUTEN: Well, personally, me, I know how it got there. It's up to the other trustees. I just don't want to make the meeting -- you know, what I really want to focus on is the fact that, okay, we've got this shortfall that the city --

MR. WELCH: It's fine with me.

MR. BROWN: That's one of the primary reasons we asked for this, is because of the statements that came out that made it seem like all of a sudden now the bill just got hiked out of nowhere.

We want to have in the public realm an explanation as to why that bill is higher. And just kind of walk us through the reasons for that, how we got there.

MR. WELCH: Okay.

MR. SCHEU: Let me just say, that explanation also occurred a year ago --

MR. BROWN: Right.

MR. SCHEU: -- when Joey Greive was present on behalf of the mayor's office, whether or not they'll admit it, even though he was sitting there.

CHAIRMAN TUTEN: And just us, since we're talking about that, Director, are we expecting anybody besides the councilwoman to show up from the city, from the mayor's office?

DIRECTOR JOHNSON: No, we're not.

CHAIRMAN TUTEN: Okay. Did they give an explanation as to why they're not showing up?

DIRECTOR JOHNSON: I don't have an explanation. They were invited, but neither the treasurer or the director of finance will be attending today's workshop.

CHAIRMAN TUTEN: Okay.

MR. WELCH: Okay. I'll go right to answer your question on that, Richard.

Turn to Schedule 1. Let's look at the thing in the middle. I'm going to tell you what actually happened to generate the 44 million, and I'll tell you what the political conversation is about it. They are two different things.

MR. SUGARMAN: Excuse me. What page number are we on?

MR. WELCH: Schedule 1.

MR. SUGARMAN: What's the title of the page?

MR. WELCH: "Schedule 1. Non DROP Employee Data from October 1, 2016 Valuation."

MR. BROWN: Bob, it's in New Business and it's the fourth page.

MR. SUGARMAN: I'm looking at the Draft Report. Is that the one I should be looking at?

MS. MANNING: No.

MR. SCHEU: This also was in the letters that came out last week.

MS. MANNING: Bob, it should be in the book.

MR. BROWN: It says "Schedule 1." It also says "Non DROP Employee Data from October 1" --

MR. SUGARMAN: Got it. I have it.

MR. BROWN: All right.

MR. WELCH: Okay. I'm going to tell you the real version of what happened here.

If you look down at the bottom of the page, you see the number of active employees. And the state has a test that the payroll increase assumption -- the payroll increase assumption, not the individual pay increase assumption, but the payroll increase assumption -- is supposed to not be bigger than the ten-year average.

And if you look all the way over to the right, you see that payroll. It's 134 million, 143-, 148-, 155-, 158-, progressing in sort of a normal way, which was fine with many clients.

And during those times, there were substantial pay increases going out that averaged 4.8 percent for those five years. And the number of employees that were covered went from 2,394 to 2,428.

And then something strange started to happen. It's been much pointed out here, the pay increases went down to where they were barely cost of living increases. They averaged 2.5 percent for the next year, and the covered workers went down by 15 to 20 percent.

So I started looking over there, and I found that the payroll I was working with wasn't as big as it was years ago. So I -- at the same time I was dropping the interest assumption from 8.5 percent down to 7 percent. So I -- and raising it, what the city was paying from below 30 percent of the pay to over 100.

So I want to the state actuary and I said, we're not following the ten-year rule anymore. Our payroll is not increasing. It's decreasing. And I said, but haven't we hit them enough with that big increase? I said, the trustees have said to me -- talking about John Keane, Dick Cohee and them, you know, different variations of all you-all, I said, they've said to me, ask you can you give a break?

He said, well, let's look at the overall situation. What's the overall amount coming in? And I said like 130 percent of pay, whatever it was. And he says, okay, you can go ahead and not follow the payroll increase rule. You've got all this coming in.

So we went along. Next year, same thing. Next year, same thing. But he did have me write out that I thought payroll was going to increase so he would be covered in his thoughts, you know.

But then I kept thinking, my God, when is it going to start increasing? I'm an actuary projecting, and I keep saying something that's not happening.

And then comes this -- this year. I go to this year. Now, look at the top. We've finally gotten to the point that the past service, the 135 million, was being paid for the unfunded.

Now, if you look over a little later in that paragraph, 128 million is 7 percent of the 1.8 billion. So we had -- we had spent many years going along and not paying interest on the unfunded, paying just part of the interest and not paying full interest. The way this model worked, it didn't pay interest for many years if you use a high payroll increase assumption.

So I said to him, well, you know, look, this year if we use 3.25 percent payroll and we actually went to 30 years, we would go back to what we were doing before. We would reduce it from 135 million to 97 million. We would have a 38 million reduction.

He said, well, are you still saying that overall the program is -- I said, I'm not going to make any comment about it. I said, this is a cutback. It's a severe cutback in terms of money coming in. It's moving it from a current date to down the road, exactly the opposite that the 30-year Florida law was set up to do.

In the 30-year Florida law, you're generally are supposed to have in a year from less and less, you know, to where you pay it down. You don't not pay it down. Actuarial standards have come out and said, don't use methods that don't pay it down, the actual body, that in general this is not the right way to do it.

So I said to him, so what you're paying, in case they ask me this year, what -- are you going to grant the waiver again? He said no. I said, then what are you going to do? He said, have them write me and we'll see what we can work out.

So I go back now and I do an actual report. I can't put in that there's a waiver in there. I've got to use the law or otherwise you can have my firm in court, and firms have been sued in that issue, as you -- as you know.

Anyhow, so my little firm -- little firm but some big clients, I said, I can't take the risk. I have to go and do it and let them negotiate it out later if they want to negotiate. I don't know. The Board might want the big number. How do I know that? The Board might say, we want to get in the full amount of money we can for the members. We don't want to cut it 30 million because the mayor wants to kick it down the road. We want the full amount.

It's not up to me. So that's how -- that's how that came to be. And also at the time the FRS had passed a law saying the FRS must -- the mortality table must be used by us, and that created about an $8 million increase in cost. It cost about a 3 percent increase in liability.

MR. BROWN: The FRS mortality table has to be used by local plans? You're saying a law was passed?

MR. WELCH: Yeah, yeah.

MR. BROWN: I got you.

MR. WELCH: And everybody is doing that. I mean, I had no choice. Look at what happened there. Look at the end result here.

0.067 we ended up at. So if you do go to 30 years, how much would you have to pay using only 0.067? 137. That's the same as we started out, 135. So that protected the plan. It said that no matter what other parties might want to do in budget and they have their heavy pressures and they have their way they have to allocate resources and do the different kind of things, the actual methodology is not -- cutting its contribution a lot. It's being preserved here.

And so that's -- that's where we are today.

Unless you-all want to cut it, that's where you are today.

MR. PATSY: So, Jarmon, what do you expect payroll to change going forward? Do you expect it to continue going up or do you expect it to go down or stay flat? Because that's what we really need to deal with in the future.

MR. WELCH: Right. But here's the fly in the ointment. I expect, of course, Jacksonville has to hire new police and fire. Jacksonville is one of America's major cities. And, of course, it's going to have to pay them cost of living plus something else, because if you work less than the cost of living, after a while, you just can't make it, you know.

But the problem with this plan is that's not what's killing us, even though it's hurting us. It's hurting.

What's killing us is we have a $40 million DROP payroll we can't count. So you call everybody in now and you give them a 5 percent payroll raise and a bunch of people DROP, that payment won't go up at all because the DROPs take away a big pay, you know. They've the half-paid people. They're the ones at the end of their career.

So I translate your question asking me, when are they going to quit dropping so much? I don't know.

MR. PATSY: But do you think the payroll increase, the aggregate payroll increases, are going to stay at this 0.067 percent --

MR. WELCH: It might wait a little longer, but I think it will be at least five or ten years before we see some maturity start --

CHAIRMAN TUTEN: Well, and I want to add something here, too, Rick.

When you look at the numbers, it's obvious you can see that the DROP, the Non DROP, it's guys that are on the DROP that are still here working.

The hidden benefit to the city, of course, is the fact that, while I'm on the DROP, they don't make any contributions to the pension for as long as I stay on the DROP.

So it's kind of -- it's good and bad. The city saves a ton of money in pension contributions for up to five years, but at the same time, you can't count guys like me on the DROP for active payroll.

So the solution would obviously be hire more people as if I wasn't here. But, of course, that drives up city costs for salaries and all that kind of good stuff. It's just kind of the beast that we're in, you know, with the DROP.

And I don't have the numbers. Maybe Devin does or Devin could find them as far as how much money the city has saved over -- since the DROP has been implemented. It's quite a bit of money. And that never gets mentioned because, you know, the city doesn't like to talk about the positive aspects of all this stuff. It's just the horrific numbers in the aftermath.

So outside of hiring a bunch of people with a bunch of people that are still in the DROP, I don't see how this payroll number is going to change much at all, period. I mean, I just don't see it.

MR. SCHEU: So in the reform agreement, though, didn't that do away with the DROP for new employees at some point?

MR. WELCH: At some point, yes.

CHAIRMAN TUTEN: Right. The city must contribute, even though they get on the DROP. That's for the new reform class in the future, but that's 25 years down the road.

MR. SCHEU: But you've still got all the backlog of officers --

CHAIRMAN TUTEN: Right.

MR. SCHEU: -- that can be involved.

CHAIRMAN TUTEN: Right, right.

MR. WELCH: Again, since I'm an introvert numbers guy that sits around and thinks about these things all the time -- I know lawyers can be introvert too, but they speak more than I do.

But the DROP is not the way you think it is. Louisiana came out with DROPs and then Florida picked it up and all that.

So a number of years ago actuaries said DROPs don't cost anything. That would be their regular thing. The people stay around five years and they don't earn any more pensions. They don't get a salary increase in their pensions. They give all that up by dropping, and yet they get accumulation of their pension.

Well, when I cost it out, you-all put me in the DROP, in their forties, 5 percent of the people a year were retiring. We had 100 people come up and they had their 20 years and then in five they leave. So we had 5 percent at age 44, 5 percent at age 45, and so forth.

So when you asked me to cost out the DROP, and accurately, in hindsight, what I did was to look at a few places around. Like I've long been the reviewing actuary for the Miami Police Department. They have a DROP.

So I looked over there and they had, like, 17 people that took it over a period of time. And I said, well, let's suppose in Jacksonville that 20 percent more started leaving. That seems like a big change, 20 percent in one year and 20 percent more in the next year.

So that meant rather than five people leaving in their forties, I had six people leaving in their forties.

Well, in Jacksonville, John Keane, or whoever was the Pied Piper, made it to where everybody is leaving in the first two years, not 6 percent, 50 percent. So as soon as I saw that, I came back -- well, I won't go into what happened after that, trying to raise rates and change it.

And you said, well, okay, they're dropping, but if it's a zero trade-off, what difference does it make? And you're right. You save money by him sitting at the desk but not being -- getting any more pension.

Here's where you lose money at. The average police and fireman, during the early years that I was the actuary, would retire at age 59. His pension started at age 59.

Once they were -- the DROP came in with that 8.5 percent interest rate, the average person started dropping at age 49, ten years earlier. And then they went -- well, they had right before that. The DROP is 2000, 1996 -- so now we've got a COLA that, rather than starting at 59, it's starting at 49, which had never been anticipated.

So in that case the DROP became very expensive, not because the -- not so much the benefits, the money the man's walking away with, but because you're getting them at such an earlier date.

CHAIRMAN TUTEN: Well, once again, Jarmon, on its face, people would go, yeah, that's not good. But if you backtrack with the history, that COLA was bargained with with the city, with Mayor Delaney, with pay cuts for every new employee that's been in effect since I've been on the job, which is 20 years, by the way.

So every new employee got, I believe, a 6 percent pay cut starting salary. That was to offset part of that.

You know, whenever there's one thing to look at, it's the same thing with the reason people leave. You say they're leaving at 49 instead of 59. For the last ten years, the rhetoric has literally driven people out the door.

I know firemen. Believe me, I know them. And they would stay as long as you would let them if they thought when they did leave in 10 or 15 years, that it was worth it to them.

But, you know, it's human nature. Once you get scared, once you see cuts for new guys or this or that, it's the carrot or the stick. Firemen respond to carrots. I said that eight years ago when we started this process with Mayor Peyton.

If you incentivize it, it may seem like, well, that's because that's -- because you don't want to give them more money. No, you're wrong. If you incentivize it down the road, they'll stay another 10, 15 years if they think they're going to get another 3 percent on their pension.

In other words, yeah, it's going to cost you a little bit more in salary, but you're not paying them a pension for 15 years because they're still doing the job.

Unfortunately, it's been the stick approach through the media, through the administrations of, you know, you guys, we've got to do something. This is unsustainable. If I hear that word one more time, I'm going off the deep end.

But you scared people out the door, and that's part of the problem. And I understand the stats are the stats. And no one's here judging you, Jarmon. Certainly not me. I've been here through the whole thing, but --

MR. WELCH: Well, I want to support what you just said and echo it.

You see, if you're working and you're getting decent raises, you don't want to DROP because over the next five years, you're going to get five good raises. So it's only if you're not going to get the raises.

So if my comparison is against getting good raises and staying around and not dropping and dropping, well, I can -- I've had clients where staying around is better. You save money by the

DROP.

So the circumstance that Jacksonville got into to where they didn't give raises made the DROP a lot more expensive than it would have otherwise been.

MR. PATSY: We're digressing here a second with the DROP issue, but I'm going to continue going down that road a little bit.

DROP is not a retirement benefit. It's a managerial tool. DROP is an incentive to get people to stay longer if you've got them leaving early.

If they're staying until 59, you don't have to have a DROP plan. Why? You've got people staying the full career and earning their retirement benefits.

CHAIRMAN TUTEN: Yeah, but here's --

MR. PATSY: So as long as they get a DROP benefit, they start leaving early.

CHAIRMAN TUTEN: Well, but, Rick, you've got to understand the fire service and how it's --

MR. PATSY: I understand it. I appreciate it.

CHAIRMAN TUTEN: No, I don't think -- you don't understand. Back when those guys were staying until 59, there was not anything called EMS. There were not engine companies doing 4- or 500 calls.

In other words, the job has changed to the point of where guys, on an average engine company like my dad and other people back in the '60s, '70s, '80s, hell, even into the '90s, were doing a hundred calls a month, 200, 300.

Well, now 300 is an average engine company. And you talk about running the wheels off of someone. It's not the same job. Between the HAZMAT and the meth labs and all the EMS calls going night and day because of how the EMS has been abused, et cetera, the workload on the employee -- you can't squeeze much more productivity out of this employee.

They're getting squeezed to the point -- now, could you get another five years out of them? Oh, definitely. Another ten years? Probably, even though the workload has increased. But when you factor in the fact that you're basically running your wheels off on a personal, physical, emotional level as opposed to back in the day, and on top of that, you're not going to get a raise on top of that, you know, you do have a DROP plan.

There's no doubt that the DROP is an incentivizer for sure to make that big picture. You know what? I'm out of here. I'm not going to do that. It's not worth my while. Of course, it is. But the DROP was set up to be cost neutral if it was done correctly.

Now, there are parts of the DROP that back -- way back when I was first running for trustee, that you could see coming from a mile away the city's liability, okay, guaranteed at 8.4 percent.

That's been remedied by my DROP. It's variable. Last year I got 10 percent, but it's not going to -- but you're not going to -- by taking away the DROP, you're not going to make people necessarily work longer in this environment, in this world of firemen.

MR. PATSY: I would contend you should have never put the DROP in in the first place. Okay? I don't disagree with what you said about the workload and what you're doing to your average fireman. Okay. I don't disagree with that at all.

That's a managerial leadership issue.

That's not a pension issue. That should not be resolved with a pension, and it should be resolved through pay raises, hiring more firefighters, those kinds of issues.

The city made the mistake of instituting a DROP plan when it wasn't really needed. They had other tools available, and they said, hey, this might be a cheap way to do it. I don't disagree with that at all.

But you're right. DROP plans are intended to be revenue neutral. They're not intended to be earning 8.4 percent in perpetuity.

CHAIRMAN TUTEN: Well, part of the thinking was to let --

MR. PATSY: Most DROP plans, when you reach the end of your DROP period, your money is gone. You take it with you. Whatever -- you don't leave it into the plan for 30 and 40 and 50 years.

CHAIRMAN TUTEN: If we were to go in a time machine, you would hear me say very similar things, Rick.

MR. PATSY: Okay. I know.

CHAIRMAN TUTEN: But at the time, it was to keep people here. It was -- it was to help the city keep people, experienced people, on the job longer. I think the idea is good. I think the implementation of said idea probably could have used a little tweaking. Because, once again, like I said, the long-term liability to the city is obviously a drain on this pension fund. There's no -- there's no argument about that.

MR. PATSY: And I don't think you fix it by doing away with the DROP plan today. Okay?

CHAIRMAN TUTEN: Well, it's -- well, I understand that. It's -- there's no getting rid of it. The problem is that the employees going forward that are on the variable rate -- the problem is the fact that you've got -- you know, I shouldn't say problem, because those guys earned it, but you have -- I don't even know how many retirees we have on the DROP, but it's a ton. Okay.

MR. PATSY: And it should be no rate. It should be zero.

MR. SCHEU: At 8.4 percent?

CHAIRMAN TUTEN: 8.4. Correct. And they should have gotten their money --

MR. PATSY: There should be no rate. It should be zero.

MR. SCHEU: But we can't -- that can't be changed.

MR. PATSY: You're right.

MR. BROWN: Quite frankly, this discussion, while it's interesting, really has very little to do with the idea of this inflated payment.

I mean, I agree, there's people on both sides, but this -- what we needed -- what the mayor came out and didn't know or conveyed that he didn't know was that this payment came out of nowhere, this increased payment.

And we convened here today so that we could explain to the mayor, who was invited, I believe, and some of his staff, why last January -- and I wasn't a trustee last January so I had to do some history learning -- why we are here today and why there's a higher payment.

And, of course, we did a little bit of research to see if we could phase that in. I'm not even sure if we've even gotten to that part yet, if that can even happen.

MR. SCHEU: We need to discuss it, but just to point out, that this was discussed last year.

MR. BROWN: Right. And I have -- I've read the transcripts so I understand what was discussed. But we need to get some clear answers as to whether a phase-in can occur.

If it can't, and I believe that's partly answered in that letter that came back, so we just need to, I believe, look at that and not necessarily discuss what should be, you know, negotiated out of, you know, a wage and benefits package in the future and such. You know what I mean?

MR. PATSY: I get you. I got you. I got you.

MR. BROWN: I mean, I understand the issues with the DROP plans and such. But, nevertheless, they are what they are and they'll be negotiated by the unions. But we -- we are bound by what those unions have negotiated and what is in play.

And in my opinion, today is a chance for us to explain to the public why we are in the situation we're in with this increased payment.

CHAIRMAN TUTEN: Okay.

On that fact, you've explained this well, Jarmon, as far as the payroll increase. Is anybody else confused as to how this has affected --

MR. PATSY: I do have one question. This

payroll number, okay, is this number -- does this include the DROP participants?

MR. WELCH: No. You're not allowed to.

MR. PATSY: Okay. So this number ties to the payroll number.

MR. WELCH: What people contribute in there.

MR. BROWN: And the key there, you said we're not allowed to include DROP participants. That's because Florida law dictates --

MR. WELCH: I argued with them. I tried to get them to change it.

MR. BROWN: Okay.

MR. WELCH: And even GASB comes out against counting DROPs.

MR. BROWN: But the Department of Retirement Services has explained we cannot factor in DROP participants?

MR. WELCH: They won't let you.

MR. BROWN: Okay.

CHAIRMAN TUTEN: See, that's another layer of -- what people don't understand is, it's not entirely the pension benefits. You know, there's so many different facets. But, okay, we got this part.

Quickly, Jarmon, before we need to figure out what we can do going forward for this 43-, 44 million, explain to me how the -- either the new pension reform bill or the current plan by the mayor, does that -- is that any part of the driving cost in that 44 million, or is that something that's going to be down the road?

MR. WELCH: No, that doesn't have anything to do with it, except that the fact -- when they asked me how are things going, you know.

CHAIRMAN TUTEN: Right. Okay.

MR. WELCH: I -- I was neutral because I don't know. You-all are working on it.

MR. PATSY: Right, right.

MR. WELCH: They wanted me to strongly say, you've got to do this and this, and then you'll put the hat on it. But without that, they wouldn't.

CHAIRMAN TUTEN: Okay. So we're at the -- so basically we're at the point in the road where we need to figure out what we're going to do for this 44 million that's due next year for the council to deal with.

MR. BROWN: 44 extra, the extra 44.

CHAIRMAN TUTEN: Well, this year now. It's this year, 2017, correct?

MR. BROWN: Right. So in order for us to figure out what we can do, we need to know our complete array of options, right?

MR. WELCH: Well, I think -- I think one option that would be natural would be 25 million of the 33 million increase -- and that's shown on page 1 of my actuarial report. Let's turn to that.

CHAIRMAN TUTEN: Well, let me go back to the state letter from them as far as -- obviously there's not going to be a waiver. That's a bad word. So we're going to get rid of that.

So is our option now to basically -- the best case scenario is to spread that option over three years? Is that what --

MR. WELCH: That's the way -- that's the way he seemed to talk about.

CHAIRMAN TUTEN: Okay.

MR. WELCH: But he didn't seem to talk about it lately in terms of, like, let's drop the percent down a little bit this year and a little bit next year and next year. Let's talk about the dollar -- let's spread the dollar increase over a certain --

CHAIRMAN TUTEN: Let me throw something in here before we even go down this rabbit hole with negotiations with the union.

Okay. Let's just say by some miracle four months from now they come up with a plan, regardless of whatever it is. If it's FRS, 401(k), bottle caps, I don't care at this point, but they come up with that.

We're going to have to do an actuarial study on how that's going to impact not only our fund and the city and the budget -- regardless of what we decide today, if they get that contract done before, what, October -- September 30th of 2017, that's going to have to be factored into the next year's pension contribution, correct?

MR. WELCH: Let me answer that. My answer is very concrete. Your actuary here will do an impact statement, and in it he will describe what the plan costs for the new hires. That would have nothing to do with this current group.

CHAIRMAN TUTEN: Okay.

MR. WELCH: We don't -- I don't have any new hires. I'm working with the current folks.

MR. BROWN: When you are referring to new hires, do you mean the people that will be a part of the fund that are -- what we're now referring to as Group 2? Because the true new hires will have nothing to do with this pension --

MR. WELCH: That's right.

MR. BROWN: Okay.

MR. WELCH: But if you change Group 2 or you go back and change Group 1, you have a very little change in the cost.

I mean, I know the members feel that they gave up things, but I costed them out as being 2 to 3 percent pay. So the whole impact of restoring everything that was taken away in 2015, just 3 percent of pay.

Now, if you -- if you go back to those 350 people or so that were hired since 2015 and you do something to them -- but I don't know that that's been mentioned, is it, that we do anything to them? They talked about restore the Group 1 people back to their level.

CHAIRMAN TUTEN: Well, that's all part of the union negotiations, this, that and the other. But what I'm trying to get at is whatever decisions the union makes will not affect the city's contribution for 2017?

MR. WELCH: No.

MR. BROWN: All right.

MR. SCHEU: I'm confused, because I thought this was explained that this actuarial report relates to the number that will go in --

MR. BROWN: In December of this year, that's correct.

MR. SCHEU: -- December of next year, for 2017. But that's in a different fiscal year from the city.

MR. BROWN: Right. But we have to do this in advance in order to go --

MR. SCHEU: Right. To go to the budget committee.

MR. BROWN: Right.

MR. WELCH: Let me finish -- let me finish answering his question.

MR. SCHEU: That's fine. So it's not this year --

CHAIRMAN TUTEN: Well, but the reason I ask is because whatever changes come, it's going to effect the current --

MR. BROWN: If there are substantial changes, will that impact --

MR. WELCH: Let me -- let me describe what they are. It's very simple.

MR. PATSY: It won't affect this.

MR. SCHEU: It won't affect --

MR. WELCH: In 2017 --

MR. PATSY: If the unions come to an agreement tomorrow with the mayor's office on this, it doesn't affect this.

MR. WELCH: We're talking about 2018's budget.

MR. BROWN: Yeah, that's right.

MR. WELCH: How could it affect it? It could affect it by the following dollars:

Present value, the mayor's sales tax, it's 339 million. I agree with that. That represents a little less than 20 percent, 15 to 20 percent of the unfunded. So the unfunded costs, if we stay at 160 million, if you reduce it by 10, 15, 20 percent, you'd have like a 25 million reduction.

So if the mayor's thing goes into effect and their approach is to present value of the sales tax, as is in the law, that actually is present value of the sales tax, then your costs would go down about 25 million.

Now, at the same time they went back and restored Group 1, the costs would go down another 4 or 5 million.

So the impact in 2018 of the mayor's proposal could be about 30 million. That's all the impact of it, you know. It's not going to save the fund. It's not going to take care of everything. It's not going to do it. It's going to be a current reduction of that magnitude.

CHAIRMAN TUTEN: Okay.

MR. PATSY: But it has absolutely no bearing on what we're talking about today, right?

MR. WELCH: No, because -- it will -- it will in this sense, that if your actuary does an impact statement and changes this before 2018 --

MR. BROWN: Right.

CHAIRMAN TUTEN: That's what I'm getting at.

MR. WELCH: -- then you'll get rid of it. Then you'll get rid of it.

MR. SCHEU: It does change the next year's budget.

MR. PATSY: Yeah, but that's -- but that's --

MR. BROWN: The only way that happens is if there's an agreement made very soon, correct?

MR. WELCH: No -- well, between now and 9/30/18.

MR. BROWN: Okay. Okay.

MR. SCHEU: But that will affect this because this is talking about the contribution of December '18, which is next year's budget.

MR. PATSY: But it's based on fiscal year 2016 performance, both from a liability and an asset perspective.

MR. WELCH: They rolled it forward like that. Well, they let him amend my report with an impact statement, if you do it before you have to pay the money.

MR. PATSY: So -- so I'm wrong. If they come to an agreement before the end of the fiscal year, it could change what we --

MR. SCHEU: Yes.

CHAIRMAN TUTEN: And my bigger picture here --

MR. BROWN: Yeah, because of restoration would do that. It would be as if those current -- those benefits, if they're restored, had existed beforehand, this payment is for next fiscal year. So, yes. When you restore, you basically -- it's as if they had them all along. And so that is the potential impact if --

MR. WELCH: That's what I did -- that's what I did in 2015. I went back and redid my -- I went back to the beginning of the year for that year and reduced the cost a little bit. It's shown in that report.

CHAIRMAN TUTEN: Well, what I'm trying to -- what I'm trying to prevent is another repeat of sort of what we're doing right now, because whatever they agree to, it's going to come under scrutiny. As some of our more illustrious members of the meeting have already pointed out, that the mayor doesn't -- hasn't released any numbers yet.

So they're, I'm sure, going to want to know not just, okay, it's going to save us $43 million this year, but what's the long-term impact, which means it's going to be more than an impact statement that's going to be required to provide that picture.

As a Board, and certainly as a trustee that comes down here quite a bit, I would prefer to have the big picture.

Now, I don't mind voting on this right here, but I'm just concerned about what's going to happen if the change is made and does it affect what we're doing today? I don't mind voting on this. Let's do it right now. But, I mean --

MR. WELCH: Any impact statement --
CHAIRMAN TUTEN: -- I'm trying to save some steps in the process here, if we have to.
MR. WELCH: Any impact statement put out before the end of fiscal year '18 will change, any impact statement.
MR. STRONG: '17.
MR. BROWN: '17.
MR. WELCH: Fiscal year '18.
MR. STRONG: But 9/30/17.
MR. WELCH: Well, I can determine -- 10/1/16 tells you what to pay from 10/1/17 to 9/30/18. So if during the pay-in period something has happened, you actually put an impact statement to change it. I've done that before.
MR. SCHEU: Could I ask a stupid question? I'm picking on up Chris's not stupid question.
I thought we were gathered here to see what we're going to do about this 40-something million --
(Simultaneous speech.)
MR. BROWN: That's correct, yes. I want to stay focused on that.
MR. SCHEU: So could we discuss that? Because the issue as I see it is whether or not

we want to stagger it or whether we don't.

MR. BROWN: Okay.

CHAIRMAN TUTEN: That's pretty much it.

MR. SCHEU: And whether that's responsible or not.

MR. BROWN: If we could kind of just keep this narrowly focused to what are our options in dealing with this increased payment, can we phase it in? And I'm not sure who can speak to this.

MR. WELCH: State actuary.

MR. BROWN: Director, and maybe to you to speak to this --

DIRECTOR JOHNSON: So after the December Board meeting, I wrote a letter to Doug Beckendorf, the state actuary, and I asked Doug two questions:

Whether or not the 3.25 percent payroll growth assumption that was in the draft that you saw in December -- that's the same payroll growth assumption that was on Schedule 1 -- could be phased in over three years; whether it could go from 3.25, down to 2.5, down to 1.25, down to zero, phased in over three years.

Second question was: Are there other assumptions that could be considered that might reduce the minimum required payment of the city from this report?

MR. BROWN: So as to minimize the immediate impact on the city --

DIRECTOR JOHNSON: Correct.

MR. BROWN: -- to kind of, you know, allow it to ease in so over the next few years it can be planned for appropriately.

DIRECTOR JOHNSON: That's correct.

MR. BROWN: And what were the --

DIRECTOR JOHNSON: Let me finish.

MR. BROWN: Yes, please. What were the results of that inquiry?

Mr. Jarmon, if you could let the director speak to kind of -- so we can get some clarity on this, and then maybe we can get some more explanation from you in just a second.

Mr. Director, if you could explain what the results of that inquiry were so we know exactly what our options are.

DIRECTOR JOHNSON: So Doug Beckendorf did respond in writing and that correspondence was shared with the Board. There's a copy of that correspondence in your book.

As a result of that, I convened a conference call with Attorney Sugarman, Pete Strong and Jarmon to review that response. I thought it was important that we have collective thinking on what his guidance was because it wasn't specific. He didn't say, yes, you can, or, no, you can't, but he gave a response.

And it was the conclusion of our current actuary that that phased-in approach to the payroll growth assumption could not be utilized.

So the report that you have now has a 3.25 -- I'm sorry -- has a 0.067 growth rate assumption. It's based on the floating ten-year average.

So what that means basically is the costs have increased $44 million. Between the mortality table change and the lowering of that payroll growth rate assumption, there's a 44-million-dollar increase.

MR. BROWN: And so what is the opinion of our counsel as well? Does he concur?

DIRECTOR JOHNSON: He can speak for himself.

MR. BROWN: Bob, can you hear me now?

MR. SUGARMAN: The question was, can we use -- can we stage in the payroll growth rate, right?

MR. BROWN: Yes.

MR. SUGARMAN: Is that the question?

MR. BROWN: That is the question, yes.

DIRECTOR JOHNSON: Can you hear us, Bob? That's the question.

MR. SCHEU: That's the question, can we stagger?

MR. BROWN: Mr. Welch's opinion is that we cannot. Do you concur with that or do you dissent?

MR. SUGARMAN: Well, I believe the guidance was given to us -- was given to us by the state. It's not a question of law. It's a question of whether we can get it by the state actuary.

And the state -- the answer that you got from the state was it's based on what advice you get from your actuary.

DIRECTOR JOHNSON: We can pose the same question to --

MR. SUGARMAN: And then we go back to the question, will the actuary sign off on the statement with that phase-in?

A lot of our clients have achieved actuarial assumption goals by phasing, particularly those who have lowered their assumed rate of investment.

CHAIRMAN TUTEN: Well, it says in the response from the state that we could do a three-year phase-in --

(Phone connection lost.)

CHAIRMAN TUTEN: Jarmon, when it says actuarial review here in the state letter, does that mean an impact statement or an actual actuary study, in depth?

MR. WELCH: It means an impact statement.

CHAIRMAN TUTEN: Okay.

MR. PATSY: So it would be effectively an amendment to our current status.

MR. BROWN: Right.

CHAIRMAN TUTEN: Well, the question for the Board is simply this:

Do you want to do it in two years, three years, one year or pay it all?

MR. SCHEU: Well, I think it's a legal issue too. I don't think it's an actuarial issue. I hope we can get a legal opinion because we are fiduciaries. So we're acting as fiduciaries for our members if we stagger.

Is that -- is that prudent, in other words? And I don't know the answer to that.

MR. BROWN: And that's why I asked Bob. I know it's kind of off the cuff.

I think it would be most appropriate to get a legal opinion on what we should do, and then I think use that before we make our decision.

MR. PATSY: Can we get a legal opinion by Friday?

CHAIRMAN TUTEN: My line of thinking is with you, Bill. You've been on the pension reform task force. I've been here. You know, the many people on the council, the media, the biggest complaint about the city, the Board, whomever, has always been what? Pushing it down the road.

MR. SCHEU: Right.

CHAIRMAN TUTEN: Pushing it down the road.

While 44 million would sure make my checking account look splendid, for the city, it's a reasonable number to somehow figure out how to make this work.

Now, we have a lot of variables once again with the contracts, this, that and the other. As far as I'm concerned, I'm with you. Let's just pay it now and be done with it.

MR. SCHEU: I know Mr. Sugarman is our pension lawyer, but I received a call from

Joey Greive last week and he requested on behalf of the city that we consider this staggering. I'm saying that for two reasons.

Number 1: It's coming from the city, not from us. Number 2: That means the mayor's office knows about it, all that staff knows about it, so I don't expect to be excoriated in the paper for coming up with something on our own if we decide to stagger

MR. BROWN: But this is the same staff that allegedly didn't even know what was --

MR. SCHEU: That's right. With that said, so what I think is that since the general counsel says that opinions are binding, and I know we've got Mr. Sugarman, but it seems to me that both the -- since the mayor's office and we are both agents of the city, that we ought to ask for general counsel's opinion as to whether we can do it or not.

MR. PATSY: But this is a pension issue and, as I understand it, correct me if I'm wrong, with pension issues, we're allowed to use outside counsel.

MR. SCHEU: No question about it. We can.

MR. PATSY: Okay. But do we have to go

through the general counsel's office to get --
MR. SCHEU: My recollection, all those talks, they were going to collaborate.
MR. BROWN: Mr. Gabriel said that they would just collaborate, and I think that would be a good thing.
MR. SCHEU: And because I don't want to get in the box where we decide to do something and then he issues a binding opinion saying --
CHAIRMAN TUTEN: I don't think --
(Simultaneous speech.)
MR. WELCH: Allow me to correct some of the statements that have been made.
The response from the state actuary was, if you have your actuary send up some information to him, he will consider the stagger. He will consider the stagger, which means, since this has been such a hot political issue, he'll go to his boss and go to the boss's boss and he'll come back with something.
I think they will allow the staggering. It's not a done deal. If you-all vote on doing it and he does allow it, the report will be rejected in the budget, because another thing, it's not the 44 million that's at issue.

44 million is the increase, but the staggering is composed of two parts: An $8 million going to 2 1/2 percent, the cost of living. On the general plan you use 2.75. The actuary uses the cost of living. Even if they could do something different, they're using that.

The 25 million is going from a 2 1/2 down to a 0.067. So the issue is around the 25 million. Will they let you pay it over three years, or how they'll let you pay it. That's what the issue is. I think they will, but you've got to ask them.

So getting lawyers in and voting and all that doesn't make any difference. At the end, the state has to either approve or not approve the report.

MR. PATSY: Right. And he's going to base it on whether it's reasonable, whether we have documented our rationale for doing that.

MR. SCHEU: Well, ultimately, I respect your opinion. And I've heard that it's an actuarial issue and I've heard it's a legal issue

Ultimately it's a legal issue because somebody like Mr. Lee will file a lawsuit and say we were not acting properly in doing this, and some judge is then going to get to decide it as a legal issue whether under the statute we're permitted to do that.

Now, there will be expert testimony that comes in from you, from our new actuary, maybe from others, but ultimately it's a legal conclusion.

CHAIRMAN TUTEN: Well, I don't think there's going to be any legal controversy if we just pay it off. I don't think we're entitled -- I don't think we'll encounter any controversy from the media. I don't think we'll encounter any controversy from the taxpayers. I don't think we'll encounter -- hopefully any controversy from the City Council, even though they may not like it.

Pay the bill. Because, honestly, Bill, I've been down here for so long, at every turn it's always, the Board, this mayor or that mayor.

Now, when you question the politicians that were there, hey, man, that's not really what happened. This is what kind of happened. We kind of did this, we kind of did that. No, it's not my fault. It's not my fault.

Well, the only people that it seems to be the fault of are the five people down here, you know. One, I just -- let's end all that and just say, look, this is the bill, you know. We told you about it a year ago. If you didn't know about it, shame on you. If you did and you act like you didn't -- well, I'm not going to get into that because I don't care.

We have a bill. Let's pay it. Let's stop tap-dancing around this lawyer, that lawyer, 8 million, 12 million, whatever million. Pay the bill and then whatever happens with the contract, whatever happens with next year's payment, so be it. But let's just get it over with and stop talking about it.

MR. BROWN: So as fiduciaries to the fund, why would we want to stagger? Why would we want to defer any of this anyway?

MR. PATSY: Because you can come right back next year and have to amend it and change it. So my preference would be to stagger it, number one, because incremental changes are easier to adjust going forward, and given the volatility of the markets, it would be very easy to amend it going forward.

To be frank, I don't think, when I look at the five-year trend, the number is going up as opposed to something that I think is going to stay low.

Yes, the DROP is an issue. DROP participants. As you enter DROP, you're entering in at a much higher level of compensation than the new guy who's coming in the door. So I get that.

But my personal preference is always incremental because it gives you options as far as changing it going forward.

If this new proposal passes, you guys are getting big pay raises, and it's going to be across the board, and it's going to have a dramatic impact on this payroll number.

CHAIRMAN TUTEN: Well, all that stuff, I understand what you're saying.

MR. PATSY: I know it's all hypothetical, you're right. And if this was an issue that we weren't dealing with, I would say -- I would be much more inclined to say, yeah, let's go ahead and pay it.

CHAIRMAN TUTEN: Well, what if the markets next year don't turn out? What if it goes down again and leads to a bigger increase in payment and --

MR. PATSY: We could lower it again.

CHAIRMAN TUTEN: -- defer? It's gotten to the point where --

MR. PATSY: I get your point, Rich, about kicking the can down the road. Believe me, I get it. But we have done very constructive, very positive things in the governance of this plan, not just in how we deal with each other as a Board. I think it's a very collegial environment. I think it's a very good, good constructive, positive way to approach this.

Things we've done over the last -- how long have I been on the Board, 12 months? I mean, think about it. You're the longest tenured Board member.

You're second and you've been here, what, two and a half years?

MR. SCHEU: One year.

MR. PATSY: Oh, okay. All the rest of us are new guys, you know? But we're moving this plan in the right direction.

Yeah, 44 million would be a nice chunk of change to add to the plan and it would have a dramatic impact -- don't know if it would be a dramatic impact, but it would be a strongly positive impact on the funded status.

I'm much more comfortable with a staggered approach. In my plan, that's the approach we take.

MR. BROWN: What about you, Bill?

MR. SCHEU: Well, I'm still pretty mixed, but I could be persuaded either. But my gut -- all my life in the community I felt like we are one big community altogether and we ought to collaborate with each other.

So based on the mayor's proposal to us, I think we ought to be reconciling and try to collaborate, even though he doesn't want to reconcile with us.

But I think that's what we're called to do, is to try to be agents of working together rather than beating each other over the head.

And so I think I tend more towards staggering on some basis. I think -- this is a workshop, so I don't think we vote today.

MR. BROWN: Right.

MR. SCHEU: So I think between now and Friday, I would like a legal opinion as to whether, in our lawyer's judgment, we can do it.

CHAIRMAN TUTEN: Okay. We're not going to vote on anything today. I don't think my mind is going to change Friday, but who knows.

That's a preview for you-all in the stands.

Legal -- get the legal opinion, and I could be changed, break down the scenario as far as staggering goes, you know. Just simple as we possibly can by Friday. We'll vote on it first thing Friday at the meeting? So that's the first thing?

MR. SCHEU: You set the agenda. Before the pledge?

MR. BROWN: After the pledge.

CHAIRMAN TUTEN: Always after the pledge. And hopefully there will be no, you know, deceased members.

MR. WELCH: You want me to call the state actuary and tell him what you-all intend to do, have your actuary do it so you can get the input from that?

MR. BROWN: Sure.

CHAIRMAN TUTEN: Well, you know, like I said, I know it's battle fatigue, but it's just -- pay your bills, you know.

MR. BROWN: I understand, but if we do elect to do the staggering, it would be nice to have their opinion on it.

MR. WELCH: Even if you just accept the report, you can always stagger because that's the way he left it, the actuary is --

CHAIRMAN TUTEN: I'm not concerned about the actual cause and effect on the fund or the city, I'm looking at FRS to --

(Simultaneous speech, phone connection issue.)

CHAIRMAN TUTEN: -- whatever the state says we're allowed to do, whatever those options are, we'll have them presented, discuss it, we'll vote on it, and that will be that.

MR. SCHEU: Mr. Sugarman, between now and our meeting Friday morning, would you be in a position to advise us and give us an opinion as to whether we're permitted to stagger, in your legal judgment, under the applicable statutes -- and I guess that's 112.64(5)(a) and (b), whether they would permit us to stagger on a reasonable basis?

MR. SUGARMAN: You're asking two different questions here. One is a legal opinion as, can it be done? And the answer is yes, under certain circumstances it can be done.

The second question deals with what are those circumstances? Will they approve it? And we have the answer to that from Doug Beckendorf, the actuary, who answered on January 4th, and that's in our packet here.

It says the division -- with regard to the payroll increase assumption, a three-year phase-in may be permissible; however, final determination will require an actuarial review be performed in the first half of 2017.

So what that means is it's not a lawyer's call and it's not a judge's call. It's an actuary's call, the state actuary.

But before we can submit something to the state actuary for consideration, if he says he wants to review an actuarial review, the question is, will the Board of Trustees, who have the responsibility for setting assumptions, be able to have an actuarial valuation that has that three-year phase-in?

And that question goes back to your actuary because, as they said in the letter to Tim, that we must consider, with the assistance of the plan's actuary, whether the changes in the assumptions are reasonable.

MR. SCHEU: So reasonable, as a matter --

MR. SUGARMAN: I believe we can make a good argument that it's reasonable to phase in something that is so drastic and produces such a large increase in employer contribution, particularly in light of the legislation that has so dramatically overhauled our plan.

But we get back to the question of whether or not Jarmon is willing to put his signature on it.

MR. SCHEU: Well, I would submit that the question of reasonableness ultimately is a legal question based on the expert opinions of the actuaries, because if it were to go to court, the judge would make a determination as to reasonableness based on the testimony of the actuary.

MR. SUGARMAN: Yes. That's another way of saying what I said.

MR. SCHEU: That's right. So in your opinion --

MR. SUGARMAN: I wanted -- I don't want to tell the actuary what to do. I want a -- I want a defensible actuarial opinion in case it is challenged, and in case the state doesn't approve it, if our actuary's solidly behind it, we have mechanisms for challenging the state's refusal to approve that valuation. But we have to initiate it.

MR. SCHEU: The question, then, for Jarmon is whether in his opinion, under 112.64(5)(a) and (b), it would be reasonable to stagger this.

MR. WELCH: Yes. If the state actuary says you can stagger it, I certain will change that page or whatever and change your contribution.

If, however --

MR. SUGARMAN: That reverses the question.

The question is, if Jarmon is willing to recommend it to you and has reasons for his recommendation, then I can support that and the actuary can support it in front of a challenge that would -- all the way to this court challenge, which would be in front of an administrative law judge.

If Jarmon is on the stand and we say, did you recommend this assumption, or, did you agree with this assumption, is it a reasonable assumption? If Jarmon says no, we lose. If Jarmon says yes, the next question is, why is it reasonable?

If Jarmon has a good explanation, even though it may be different from the state actuary's explanation, then we win, as long as it's a reasonable explanation supported by actuarial standards.

MR. WELCH: Well, I would do the first --

MR. SUGARMAN: It all relies on what your actuary says and is willing to sign his name to.

MR. WELCH: I'm willing to sign my name to the first, but not willing to sign my name to the second.

MR. SUGARMAN: The second, meaning the phase-in?

MR. WELCH: Yeah. If the state actuary doesn't approve it, I don't approve it.

MR. SUGARMAN: See, if it goes the other way around, we present something to the state actuary for his approval. It starts --

(Simultaneous speech.)

MR. BROWN: Yes.

MR. SCHEU: You've got to go first.

MR. PATSY: You've got to take a stand --

MR. SCHEU: You've got to say it's your opinion, either yes or no.

MR. BROWN: And then he can -- he can vet that and say whether or not he concurs.

MR. SUGARMAN: Yes. He's going to tell you whether or not he approves it. He's not going to tell you what to do.

MR. WELCH: Well, here's what I would -- here's what I would agree to send him.

I would not talk in terms of percent. I would agree to write him a letter telling him that the change from 2 1/2 percent -- which is the level adopted by the Board last January, they moved it from 3.25 to 2.5 -- that the change from 2.5 percent down to 0.067 percent, which created another 25 million, is a change that, in my opinion, ought to be staggered in over three years.

MR. SCHEU: I think that's --

MR. WELCH: And if he asks me why, I'll give him all kinds of reasons.

MR. BROWN: Then let's submit that to the state actuary and see if he would concur with that.

MR. WELCH: Okay.

MR. SCHEU: But that doesn't get submitted until we do the report and adopt the assumption.

MR. BROWN: Right.

MR. SCHEU: So if we adopted that assumption, you would say that was reasonable?

MR. WELCH: I would write such a letter to him, and if he then says okay, I'll change my report --

MR. BROWN: Okay. Gotcha.

MR. WELCH: -- but I won't change my report before he says okay.

CHAIRMAN TUTEN: Well, that's what he says in the letter, basically. If you want to change the assumption, give me proof as to why it's reasonable and it's doable and I'll look at it, but you have to have an actuarial evaluation done.

MR. WELCH: Yes.

MR. SCHEU: But he said he's not going to do that without an actuarial review.

CHAIRMAN TUTEN: Correct. That's what I'm saying. You'll have the numbers first. You can't ask for permission and then give him the numbers --

MR. BROWN: You're not wanting to do the report after he says --

MR. WELCH: Well, I can give an actuarial review. My God, I worked on it for 35 years. I know all kinds of things to say.

MR. BROWN: Okay.

MR. WELCH: And you'll soon be doing that.

MR. SCHEU: But you're not willing to give the opinion now, and it's just an opinion, that it's reasonable to do what you just said.

MR. WELCH: It's reasonable to do it if he agrees, but if he doesn't agree, it's not reasonable to do it.

MR. SUGARMAN: No, no, no.

MR. BROWN: Beforehand he has to --

MR. SUGARMAN: That's not the way it works, okay?

MR. BROWN: You have to provide an explanation as to why this is --

MR. WELCH: Because it's not reasonable for me to go against the state actuary.

MR. SUGARMAN: That's not the way it works.

MR. WELCH: I'm not going to get involved in a lawsuit with the state actuary.

MR. BROWN: No --

CHAIRMAN TUTEN: Jarmon, it's the way you word it. Look, on behalf of the Board of

Trustees, they have asked me to present this to you. Is this -- in your opinion, is this reasonable? If it's not, don't worry about it, we're done.

MR. WELCH: Right. That's what I'm doing.

MR. BROWN: Okay.

CHAIRMAN TUTEN: It doesn't dispose anybody to anything.

MR. SUGARMAN: Here's the best way to do it.

Again, words like -- it's just what words we're using. The way this is most defensible is, if we have to challenge what the state actuary does, as I said before, be able to put Jarmon on the stand and say, did you recommend this to your client and why?

Now, to go back to the beginning. We produce an actuarial valuation based on assumptions that are recommended by -- to the Board by the actuary, and many actuaries will recommend a range of assumptions.

So if Jarmon recommends a three-year phase-in for this and states the reasons, then he accompanies his report by a letter saying, I'm recommending the following assumption changes, and here's why: Change in mortality, state statute so and so, phase in and then his reasons, because he just said he could give us a whole bunch of reasons.

Then we send it to the state actuary. The actuary looks at the valuation. That's this valuation he's talking about, an actuarial review. That's done by Beckendorf, by the state, not by Jarmon. And he then looks at Jarmon's letter and he says, yes, that's reasonable, and, bang, we're approved.

Or he says, no, it's not reasonable, and he explains why and then we take that into consideration.

But an experienced actuary like Jarmon can give you what he said he can give you a few moments ago, a whole list of reasons. My guess is that his view will be respected by the state, and then we're done.

MR. WELCH: Yeah.

MR. SCHEU: Can we get that accomplished before the end -- before our meeting? I would suspect, we can't.

MR. BROWN: Before Friday?

MR. WELCH: That's too quick.

MR. BROWN: Yeah.

MR. SCHEU: So could we -- could we condition our delivery of the report to the city, which we're obligated to do by January 31, here's our actuary report. It's conditioned upon the advice of Mr. -- of Jarmon of being -- exceeded or joined in -- the conclusions joined in by the state actuary. If the state actuary does not join in, our actuarial report will take the following --

MR. SUGARMAN: Yes. The words I would use is that, this actuarial report is subject to review and approval by the state actuary.

MR. BROWN: Okay.

MR. SUGARMAN: It is also subject to change should there be a collective bargaining agreement, because we know that. It could change the funding availability and some other things.

MR. SCHEU: So I think that solves our problem timing-wise.

MR. BROWN: Sure.

MR. SUGARMAN: So, yeah, then we submit it. We submit it to the state and see if we can get a prompt answer. And then if the state says no, then we have our choice. Our choice is, do we fight with the state, or do we give in, or do we negotiate for somewhere in between?

And each one of those has its own pluses and minuses and costs and --

MR. BROWN: The answer is -- right now is that we don't have a choice just yet. We're going to -- you're going to craft something, and then the state actuary will say if he's okay with that, and then if so --

MR. SCHEU: But in the meantime we submit the report to the city with that stipulation in it so that Ms. Brosche's committee, when they have to ultimately consider it, by then it will be resolved, and they will know one way or the other.

CHAIRMAN TUTEN: And for the record, Jarmon, you're providing us options, okay? I mean, you can recommend what you want to, but all we're using you for is to show us the picture. We're the ones that are supposed to make the decision, you know.

MR. WELCH: Sure.

CHAIRMAN TUTEN: And if it's going to go against the state actuary, forget about it. If it's anything that's even going to hint at some sort of legal challenge, forget about it. It's not worth it. It's either, these are going to be the numbers, we'll make the decision --

MR. SCHEU: We'll decide that then. Right.

MR. BROWN: Right.

CHAIRMAN TUTEN: -- and go from there.

MR. WELCH: Okay. Well, there's only one thing that might occur, and hopefully it won't --

CHAIRMAN TUTEN: Oh, it will now, yeah.

MR. WELCH: Let me explain what might occur.

In the past he tells me -- like when he gave me waivers before, he said, I'll give you a waiver, but he wouldn't put it in writing.

But when I send him this letter, he's liable to call me up and say, yes, Jarmon, that seems reasonable to me. Send your report in. I'm going to approve it. Yet I have nothing in writing.

MR. SCHEU: But you document in a memo which is admissible at trial that he approved it, that Mr. Sugarman is going to introduce.

CHAIRMAN TUTEN: Let me put it this way. Trust me, after what the mayor said about the state and the illegality and all this other stuff, trust me, you will get nothing but written responses from the state from here on out.

MR. WELCH: Okay.

CHAIRMAN TUTEN: There will be no more phone calls. There will be no more favors for a pal. You can forget that, buddy. This is all on the table.

MR. SUGARMAN: And as you've said, if we put -- you know, if we have to do the challenge, and it's the city who's going to drive that decision, if we have to do that challenge, then -- and I can put -- I can put Jarmon on the stand, say, yes, after talking it over with my client, I realized the impact this will have. Yes, here's all the reasons I recommended it, and I even cleared it with the state actuary and made a memory -- made a memo.

And the state actuary then says no, I'm going to say, what changed from the time you talked to Jarmon? We relied on that.

That's a good case for me.

MR. BROWN: Right.

MR. SUGARMAN: I can do well with that.

MR. WELCH: Maybe not for me, though.

MR. PATSY: Jarmon --

MR. SUGARMAN: Well, the fact is that a lot of these actuaries have known each other for years and they work together and they trust each other. And that's why --

MR. WELCH: If I call him tomorrow, he might say he'd give it to me. We want to do it the proper way.

MR. SUGARMAN: -- a lot of this is done, as Jarmon said, you just call up and you jawbone with the other guy, and you want to see what happens, and you come up with something you can bring back to your client.

MR. WELCH: Right.

MR. SUGARMAN: But, you know, as you said just a moment ago, also maybe the stakes are a little higher here because of the political environment.

But the Board of Trustees can't deal with that. Board of Trustees has to do with Beckendorf's steps. That's done on the advice of our actuary. Send it to him. And if our actuary's advice is sound, then we will support it here at the Board of Trustees.

MR. BROWN: How long do you think it would take you to craft that and send it to the state actuary?

MR. WELCH: I can do it by the end of this week.

MR. BROWN: Okay.

MR. PATSY: By Friday?

MR. WELCH: Yeah.

MR. BROWN: Well, but we won't have an answer likely by Friday.

MR. WELCH: You referred to an alternate rule that I never heard of. Can you send me something on that?

MR. STRONG: Well, it's in 112.64(5)(b) is what I referred to.

MR. WELCH: Write that down, would you?

MR. PATSY: Jarmon, I have a question in regards to -- you're going to get to this at some juncture.

MR. WELCH: I want to clarify something on that because it's confusion that shouldn't be confused here. It's very simple, really.

MR. PATSY: Well, my question is, if we go with the staggered approach, that number on 4(a) --

MR. WELCH: Yeah.

MR. PATSY: -- for 10/1/16, all the way to the 164,417,818, if we go with the staggered approach, that number will change, correct?

MR. WELCH: Yes, yes. Okay.

MR. PATSY: Okay.

MR. WELCH: Let me -- we were talking about is it this fiscal year, is it next fiscal year? When do these changes come into effect? Let me explain how it's done.

I calculated 149.74 percent of pay within the city contribution. It's a city contribution for fiscal year '18.

Now, the city, earlier in the year, in December, likes to throw in a chunk of money. So they make me give them some kind of estimate of what that number might be. Of course, I don't know what the pay is going to be for fiscal year '18, so I'm just giving them an estimate because they asked for it.

But at the end of the year, they true up to where they have 149.74. So if you get in an impact statement that's effective before the end of 9/30/18 and they're truing up, they can reflect it.

MR. SCHEU: So that might change.

MR. BROWN: Yes.

MR. WELCH: Okay. So this is the model number at 6 percent, 7 percent, 8 percent. The actives have 768 million in their -- the value of their accrued liability. And the retirees -- DROP, 2 1/2 billion.

So if we could earn 7 percent on our money, we would -- we would only need 3.3 billion, of which we only have 1.5. So we're short 1.8. And we pay off that 1.8. We're short every year that a valuation is done, a base is made up, which is always over a hundred. You always have gains and losses. So you have this number. That becomes an item that has to be funded over 30 years, this new base.

And so we now have 18 such bases, but we didn't always do valuations every year. Florida law requires you do it once every three years. The big plans typically look every year.

Now, for the fiscal year, this coming one year, the value is 45 million that this method allocates is the cost for that one year, for this nother year of service and salary.

And, also, unlike probably hardly any plan in Florida, in moving to conservatism, we move to pay the manager fees and the city contribution. So the people talk about a net earning, net on there. We don't have nothing from net to earnings. There is no money manager fees taken out of earnings.

So, anyhow, so the total -- total cost that the method says goes in is 220-. Then you've got these several places that are putting in a small amount of money. That leaves you with what the city has to pay at the end.

And in addition to that, there's supplemental contributions that Bill and his group worked up. And they -- on the city's side, in a couple of years it's going to be 32 million a year.

But the total impact of the mayor's proposal will be to reduce things by 25 million a year. And so they're -- in effect, are funding bills, supplemental contributions.

(Inaudible) said, and I agree, that the value of the sales tax currently is 239 million. Bill had 350 million put up over a period of years, and 110 million also from the members' side. And so it's not quite present value by the time they reach 239-, but it's like 300 million, so something this side of it.

So in effect, the whole point of the mayor's proposal was to defund the supplement contributions that Bill did.

Now, at the same time he was going to go from 18 to 30 to fund it. But that's fine if you can afford to refinance your mortgage, but do you want to slow down the funding again and pay only the interest? That's the thing I've been harping on. But, anyhow, I'll stop that.

Are we wanting to go to another page?

CHAIRMAN TUTEN: Jarmon, real quick, on that, I know we do the study back and forth as far as different assume rates. If we were -- like with the old assumed rate of 8.5, how much difference would that make total?

MR. WELCH: It would make a hell of a difference --

CHAIRMAN TUTEN: We talking about 20 million, 30 million?

MR. BROWN: Mr. Chairman --

CHAIRMAN TUTEN: I was just curious.

MR. PATSY: That's not reasonable anymore.

(Simultaneous speech.)

MR. WELCH: I got a number here you can see it on.

Okay. So this -- this is the amortization payments and this is the accumulation of billed money. So I took the 10 million that went in this year, went in at the end of the year, and didn't give it any interest because it was the end of the year. And then assuming we go all the way forward, then we're going to have 888 million at the time that the unfunded is 798-.

So starting in the year 2032, if we don't, in fact, use the mayor's proposal kind of thing on it -- well, even if we do, if we just accumulate the 25 million at the end, the unfunded will be gone, and that will accumulate to be a powerful thing.

MR. PATSY: Why aren't you applying that supplemental payment straight to the UAAL --

MR. WELCH: Okay.

MR. PATSY: -- as opposed to doing it -- if this was my mortgage, I'd be really mad at you.

MR. WELCH: Okay.

MR. PATSY: Okay?

MR. WELCH: Okay.

So your brother comes up to you and he says, I'm going to help you with the mortgage. I'm going to give you some money. And you say to him, well, I'll take the money and I'll cut down what I'm paying. And he said, no, I don't want you to cut down what you're paying. Keep -- I want to help you cut the period for the mortgage. Let's cut that period.

So the question is, if you receive additional money, if you have a mortgage and an amortization schedule and you received some additional money that's going to help you, in what way do you want it to help you?

Do you want it to help you by lowering your payment all along, keep the same long period, or do you want to reduce the period?

Now, I went to the ordinance to review that. The ordinance says reduce the unfunded. But why would the members move over 110 million of their money, immediately start reducing the city's contribution?

I mean, didn't they think that they were actually doing it in such a way that they were helping get rid of this burden? Because if all you do is reduce the city's contribution, you're no better off after a period of years. The money just vanished, but they're playing less.

So I went to the state actuary and I said, in January, of 120 pages that we had, a lot of them were taken up with this idea, and how do you -- these assets, which incidentally, Richard, one of the main actuarial bodies come out in favor of using for -- so I find I'm not alone in recommending that. But I wanted to get that in.

But, anyhow, I went to the state actuary and I said to him, how do you read it? Do you read it as cutting the period, or do you read it as reducing the payment? He said, I read it as cutting the period.

I said, well, no matter what they do, but how you review it several years from now, you're not going to notice it. And he laughed.

So, I mean, the logic of it is, what was the intent when the members moved over their money? You said, well, they meant to reduce the city's contribution.

Well, when we did that back in 2000, the members gave up 60-, 70 million, gave it into -- directly to the city, they just gave the money over to the city, because of city did the DROP or something. They just gave the money over directly.

Now, if they had wanted this time for the money to go directly to the city, why do all this stuff? Just move it over.

CHAIRMAN TUTEN: Jarmon, let me interrupt you. I apologize. I've got to go.

Tim, is there anything else you want -- while I'm here? I've got to be going.

MR. SCHEU: All I want to say is if Mr. Sugarman and Mr. Welch can get the language for us that's going to accompany the report we're going to adopt on Friday so that we can adopt it, that's what we'll need.

It doesn't have to be -- we're going to need whatever that is by 9:00 Friday morning.

CHAIRMAN TUTEN: Can you do that, Jarmon?

MR. WELCH: Now, what exactly am I supposed to do?

MR. SCHEU: The way you couched your -- what you would say, assuming it was approved by the actuary, we're going to need to have that before us when we vote on it Friday morning.

MR. WELCH: Well, you want me to do my review by Friday?

CHAIRMAN TUTEN: Basically your proposal to the state actuary is what you're going to do --

MR. WELCH: The proposal is going to say, attached is some information that I've prepared that I think you should look at, and I concluded -- so it would be hard for me by Friday to show it without having the information.

MR. SUGARMAN: The question that we will ask you Friday, Jarmon, at the Board of Trustees' meeting, but you'll probably take the initiative when you present the report is, I am recommending the following changes in assumptions and here's why.

And one of them is going to deal with mortality, and one of them is going to deal with pay increase assumption, and one of them is going to deal with how we're going to phase-in that pay increase assumption. That's what we need on the record.

MR. SCHEU: That just doesn't need to be in writing, but that could be -- you can flesh it out what you send to the state.

MR. SUGARMAN: And writing will follow. You know, say, this is what we're recommending --

MR. WELCH: Okay. Okay.

MR. SUGARMAN: -- and the writing will follow.

CHAIRMAN TUTEN: Get with Tim, Jarmon. If you have any questions, just get with Tim.

Tim, is there anything else, brother?

DIRECTOR JOHNSON: No. Bill did it. So I appreciate that, Bill.

CHAIRMAN TUTEN: I've got to run, folks.

MR. SCHEU: So it's a working session.

CHAIRMAN TUTEN: See you Friday, fellas.

DIRECTOR JOHNSON: We're adjourned.

(The Special Meeting concluded at 3:45 p.m.)

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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 97, 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 6th day of February, 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