

JACKSONVILLE POLICE AND FIRE PENSION FUND
BOARD OF TRUSTEES MEETING

DATE: January 29, 2016

TIME: 9:00 a.m. to 12:17 p.m.

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

BOARD MEMBERS PRESENT:

Larry Schmitt, Board Chairman
Richard Tuten, III, Board Secretary
Richard Patsy, Trustee
William Scheu, Trustee

ALSO PRESENT:

Beth McCague, Interim Executive Director
Debbie Manning, Executive Assistant
Paul Daragjati, Board Counsel
Devin Carter, Board CFO
Willard Payne, Pending City Council Approval

CITY REPRESENTATIVES PRESENT:

Tommy Hazouri, City Council Liaison
Joey Greive, City Fund Treasurer
Rita Mairs, Office of General Counsel
Steve Durden, Office of General Counsel

GUESTS:

John Schickel, Esquire
Linda Dufresne, KBLD, LLC
Linda Mendillo KBLD, LLC

These matters of the JPFPPF Board of Trustees Meeting came on to be heard at the time and place aforesaid, when and where the following proceedings were reported by:

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P R O C E E D I N G S

January 29, 2016

9:00 a.m.

- - -

CHAIRMAN SCHMITT: All right. It's 9:00. We'll call the meeting the order. And I don't see -- oh, here we go.

Let's observe a moment of silence for the following deceased members: Ned Shimp, retired Battalion Fire Chief; and James C. Williams, retired Police Lieutenant.

(Pause)

CHAIRMAN SCHMITT: If you will join me as we rise and 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.

Thank you very much. Please be seated.

Just to warn you, I'm going to take a couple things out of order here. I'm going to move Cecil Powell, Mr. Russell Grice up in the agenda, and also Jake Schickel will be joining us on one of the items around 10:00. So I don't know how the timing will work out, but when he arrives, we may have to move him up in the agenda as well.

First we'll start with the public speaking

1 period. Debbie, do you have public speakers?

2 MS. MANNING: We have one speaker, Curtis
3 Lee.

4 CHAIRMAN SCHMITT: Mr. Lee.

5 MR. LEE: My name is Curtis Lee. My address
6 is 7124 Claremont Creek Drive.

7 First, there's no need to allocate -- the
8 trustees should realize there's no need to
9 allocate the \$3 million from the chapter funds to
10 the share plan. Instead it could be allocated to
11 the unfunded liability. Just so you know that
12 that's not legally (inaudible) that the share
13 plan should be so funded. Please keep that in
14 mind.

15 On the topic of the frequent flyer points,
16 Mr. Klausner's December 9 letter is mistaken on
17 tax matters. Why? Because the pension fund has
18 not publicly documented that Mr. Keane, in 2012,
19 did not get several thousand dollars in cash for
20 turning in 407,000 frequent flyer points that
21 were the Police and Fire Pension Funds' property.

22 If Mr. Keane got cash, which as far as I
23 know is true, then that was taxable and all
24 Mr. Klausner says is off point. But whether
25 Mr. Keane got cash or other items of value

1 instead in 2013, Mr. Klausner is also wrong
2 because Mr. Keane got compensation in 2012.
3 Compensation, even if not taxable, is still
4 compensation.

5 Example. Employer provided an employer-paid
6 medical insurance, is compensation to the benefit
7 employees, but it is generally not taxable. In
8 light of this obvious truism, which Mr. Klausner
9 assumes away, Florida law might well bar 2016
10 efforts to retroactively provide compensation to
11 Mr. Keane.

12 Because Mr. Klausner is not a tax lawyer,
13 whereas I used to deal with many employee-benefit
14 tax issues, plus given the fact that a judge
15 ruled that he violated the law in my oldest case,
16 he should not be given credence in these areas.

17 Another reason not to take action now is
18 that I have pending complaints before three law
19 enforcement agencies. I have met with one and
20 will meet with another shortly on the issues,
21 among other things, regarding the theft of the
22 frequent flyer points.

23 So, in short, please do not rush to
24 interfere with the legal process. There's no
25 reason for you to approve the gifting or the

1 award of frequent flyer points in 2012 to
2 Mr. Keane.

3 In closing, I would ask you to stop fighting
4 my efforts. Instead, switch sides, join with me,
5 go after Mr. Keane. Let's recover \$2 million for
6 the Police and Fire Pension Fund.

7 Also, to address an issue, as far as I know,
8 there is no Police and Fire Pension Fund policy
9 on theft of Police and Fire Pension Fund
10 resources, whether it's desks, frequent flyer
11 points, computers, whatever.

12 The fact that there was nothing in writing
13 in 2012 didn't mean that it was okay that it was
14 done. It's a simple matter of logic.

15 Thank you very much.

16 CHAIRMAN SCHMITT: Any other speakers?

17 MS. MANNING: No, sir.

18 CHAIRMAN SCHMITT: All right. Public
19 speaking is closed.

20 We're on the second page of the agenda. We
21 will move Mr. Grice up in the order here and talk
22 about -- I'm trying to find what page it's on.
23 It's under New Business, 2016-1-7, Fiduciary
24 Liability Insurance for the Police and Fire
25 Pension Fund.

1 Mr. Grice.

2 MR. McCAGUE: Would you like to approve the
3 minutes before that?

4 CHAIRMAN SCHMITT: Oh, I'm sorry. Yes.
5 Stand by just a second.

6 Consent Agenda items. If we have a motion
7 to approve.

8 MR. TUTEN: I make a motion we approve it.

9 MR. PATSY: Second.

10 CHAIRMAN SCHMITT: Discussion?

11 (No response.)

12 CHAIRMAN SCHMITT: All in favor?

13 (Responses of "aye.")

14 CHAIRMAN SCHMITT: Need a motion to approve
15 the minutes. It's 2016-1-1CA.

16 MR. SCHEU: So moved.

17 MR. PATSY: Second.

18 CHAIRMAN SCHMITT: All in favor?

19 (Responses of "aye.")

20 MS. McCAGUE: Thank you.

21 CHAIRMAN SCHMITT: That will handle the
22 Consent Agenda items.

23 Mr. Grice.

24 MR. GRICE: Thank you. I was contacted by
25 the fund, I believe, in October about interest in

1 determining if fiduciary liability insurance is
2 available along with crime insurance for employee
3 dishonesty insurance.

4 I had suspicions that it was going to be
5 difficult to obtain the coverage based on the
6 funding levels, and that certainly was the case
7 initially. Once we got passed those carriers and
8 found carriers that would look a little bit
9 deeper into it, we ran into some other obstacles.

10 In these modern times of living, it's normal
11 operating procedure now for underwriters, when
12 they receive a submission, to go online, go into
13 Google, put in the name of the insured and read
14 everything they you can find about it.

15 And obviously there's been a lot of press in
16 the local media, including the availability of
17 the Benchmark Financial Services Report. So that
18 scared away a lot -- in large part, most of the
19 market place.

20 So I have really come to the conclusion that
21 we were not going to be able to find anything.
22 But through some conversations with other people
23 in the industry, we were led to what Ullico
24 Casualty. Ullico was founded in 1925. It's
25 owned by labor unions. They have a unique

1 insight into public pension planes, especially
2 those related to labor unions, and they did
3 openly offer us a program, and I've got a brief
4 illustration included in the packets that I left.

5 The initial proposal we received from them
6 for was for a million-dollar limit of liability.
7 That is inclusive of defense costs. So it's
8 basically a total of a million dollars that would
9 be available under the policy.

10 There's a sublimit, and a sublimit is an
11 interesting thing in the insurance industry.
12 It's basically -- the sublimit is really to
13 protect Ullico as much as anything. They don't
14 want to put their \$4 million limits up available
15 for voluntary compliance program expenditures.
16 So they limit that to \$200,000.

17 And any kind of claim that we may have under
18 this policy would be subject to a \$10,000
19 (inaudible) pension board deductible.

20 There also would be very specific exclusion
21 in the policy from Ullico for Curtis Lee or
22 Curtis W. Lee versus Board of Trustees of the
23 Jacksonville Police and Fire Pension Fund.

24 Errors and omissions insurance for
25 professional liability is an interesting

1 insurance mechanism. It's actually not a very
2 thick insurance policy. It's only about 20
3 pages. Because initially what they tell us is
4 they're going to cover the insured and in this
5 case the insured is the plan. The insured is the
6 trustees of the plan, past and present and
7 future, and the insured is the employees of the
8 plan.

9 And it's going to cover the insured for
10 negligent acts, errors or omissions in the
11 administration of the plan, and breach of
12 responsibilities, obligations or duties upon the
13 insureds by any employee benefit law.

14 That is pretty much what the policy says
15 that it does. So what we look to next are the
16 exclusions, and there's more detail in these
17 policy forms about exclusions. And I've got an
18 illustration there, something that kind of jumped
19 out at me.

20 Basically the first three paragraphs are
21 related to known prior acts. In other words,
22 something we already know may result in a claim,
23 the insurance company is going to protect itself
24 by just saying, We're not going to pick up
25 something that you already know is an issue.

1 So this policy would really be about looking
2 toward the future of the Police and Fire Pension
3 Fund, not the past, even though the past
4 certainly dictated a lot of the issues we've had
5 on the underwriting.

6 In addition, there's some exclusionary
7 language related to failure to fund a plan, the
8 return of any funds to public entities or
9 governmental authorities, and a change in value
10 of investments is not going to be covered under
11 this.

12 But those are just some of the highlights of
13 the exclusions. And I did ask them to let us
14 know if there was available higher limits. The
15 most they would offer to us is \$2 million limit
16 for an additional premium, and I have the premium
17 pages included in the handout.

18 The other thing we were asked to do is get a
19 quote on employee dishonesty. This would be
20 employees stealing from the fund. There is some
21 additional coverage in there for nonemployees
22 somehow accessing funds through forgery or
23 alteration or computer fraud.

24 We got a quote for a million-dollar limit on
25 that coverage as well. That would be subject to

1 a \$20,000 deductible.

2 And then if you look on the premium summary
3 page, Ullico offered the million-dollar limit
4 with an annual premium of \$27,046. The optional
5 \$2-million limit would be \$53,471. And if the
6 fund decided to also purchase employee dishonesty
7 insurance, that premium is \$5,000.

8 MR. SCHEU: A couple questions.

9 We have sovereign immunity. And so this
10 looks like it really -- if you boil it all down,
11 it would just cover in reality the defense cost.

12 MR. GRICE: Well -- and I think especially
13 when you're looking at a million-dollar limit, in
14 the grand scheme of things, a million dollars is
15 really not a lot of money.

16 MR. SCHEU: That's right.

17 MR. GRICE: So, yeah, I agree with you. I
18 think in reality it probably would be -- probably
19 be more focused on the ability to fund the
20 defense losses.

21 MR. SCHEU: And the \$200,000, is that like a
22 deductible, we take the first part of that?

23 MR. GRICE: No, sir. The deductible is
24 \$10,000. I did prepare something -- this is a
25 cheat sheet for myself for this voluntary

1 quantity. Bear with me and I'll take a look at
2 that real quick.

3 The definition in the policy of a voluntary
4 compliance program means any voluntary compliance
5 resolution administered by the IRS or any other
6 state or governmental regulatory authority.

7 MR. SCHEU: What is that?

8 MR. GRICE: I can get you a better answer
9 than I can give you, and I will. I'll get you
10 better information on that.

11 MR. SCHEU: What other -- do other funds
12 like ours have liability -- errors and omissions
13 in addition --

14 MR. GRICE: You know, it's interesting.
15 When I was going out to the marketplace, the
16 responses I was getting back from a lot of people
17 who do a lot of this is there certainly are
18 plenty that don't purchase the coverage. But
19 there certainly is a good percentage that do.

20 But I will get you better information on the
21 voluntary compliance program. That was something
22 that I was not familiar with until I saw the
23 policy.

24 MR. SCHEU: Joey just told me that the
25 city -- the General Employees Plan does not have

1 it.

2 CHAIRMAN SCHMITT: A question for you, Joey,
3 as the city treasurer. Obviously you said that
4 the General Employees Pension Plan does not have
5 this.

6 MR. GREIVE: Does not.

7 CHAIRMAN SCHMITT: Is this something from
8 the treasurer's perspective is needed by the
9 Police and Fire Pension Fund?

10 MR. GREIVE: I don't have a copy of that in
11 front of me. I'd want to spend some time
12 reviewing it, talking to General Counsel's
13 Office. The reason being, we have looked into it
14 in the past for the General Employees Fund and
15 Corrections Officer Fund.

16 Rick, I think under your tenure, I think we
17 looked at it at one point too. And we didn't do
18 a deep dive into it, but the general, the
19 off-the-cuff from the General Counsel's Office
20 was, Well, you've got sovereign immunity.

21 I don't know, you know, under what scenario
22 we would need to have this type of coverage for
23 trustees. We didn't really take it much further
24 than that, though. We probably could take it a
25 little further with the General Counsel's Office.

1 So maybe by next month's meeting, we
2 should -- between now and then we'll talk to them
3 and see what they think about it.

4 MR. SCHEU: If you really do consider it as
5 paying defense costs, which I think it really
6 does, and if you look at the kinds of expenses we
7 have other than the huge expenses related to the
8 public records request of Mr. Lee, the legal
9 expenses, particularly if the General Counsel is
10 going to be providing most of the legal work, it
11 doesn't seem to me that we really need this.

12 The bulk of the legal expenses related to
13 that litigation, as I recall, when we looked at
14 it, the \$400,000 in the budget.

15 MS. McCAGUE: Well, this year there was
16 additional legal expenses, my understanding, due
17 to the suit from the city and also the pension
18 reform. There was a lot of legal work done
19 around pension reform.

20 And then there have been issues where we
21 have used outside counsel more than normal
22 because of the transition and me as interim
23 director needing additional help.

24 MR. SCHEU: But none of that would be the
25 subject of this because these relate to claims

1 and those -- the lawsuit against us from the city
2 was really a declaratory -- well, to have the
3 senior staff voluntary program nullified.

4 CHAIRMAN SCHMITT: And for some of the newer
5 members, this all came up because there was a
6 criticism from the City Council that came out in
7 the report that we didn't have this insurance
8 coverage.

9 Up to that point I guess we hadn't even
10 reviewed it in a number of years as to whether it
11 was needed. And if my memory serves me correct,
12 in some of the documents that I read through at
13 some point it was the mayor's office or OGC --
14 years ago we had this coverage, the pension fund
15 had this coverage. And they determined it's
16 really not needed. It's an unneeded expense, so
17 they did away with it.

18 But since that criticism, again, from the
19 City Council through that report, that's why we
20 decided to take another look at this. By no
21 means is it my suggestion that this is mandatory
22 or that we have to have it.

23 But I think it's prudent that we do review
24 it again and get some more input next month from
25 the treasurer.

1 MR. SCHEU: Could we ask the General
2 Counsel's Office formally to review it and give
3 us some advice about it? And then we could give
4 that to our liaison to the City Council and say,
5 Here's what our counsel is saying, here's our
6 best judgment, and we want you to know that this
7 is our response to this particular part of that
8 report, something like that.

9 CHAIRMAN SCHMITT: I think that's a good
10 approach.

11 MR. DARAGJATI: Mr. Chairman, if I could --
12 through the chair, if I could just jump in and
13 say what our experience -- my firm's experience
14 has been with these policies.

15 We represent two funds in Miami who are
16 being sued, and the fiduciary liability is paying
17 for their representation.

18 So Mr. Scheu is actually on point on this.
19 What this does is going to pay for outside
20 counsel to represent. This fund has sovereign
21 immunity, so the sovereign immunity limits of
22 Florida Statute are going to be a buttress to any
23 claims against the fund.

24 What generally tends to happen is, in our
25 experience, former members of the fund will file

1 suit based upon actions the Board took, and this
2 will provide for representation.

3 MR. GREIVE: So the sovereign immunity cap
4 beyond which we're protected is 500,000. So this
5 would cover the first 500,000?

6 MR. DARAGJATI: They changed it -- right.
7 They changed it, I think, about a year or two
8 ago. And it's 200-, I believe, 300- per
9 occurrence, 200- per individual.

10 MR. SCHEU: But we may be different because
11 the charter says that we have sovereign immunity
12 and there's no limitation on that, as I recall.
13 And there's a general sovereign immunity statute
14 for the state, which I think is \$200,000.

15 MR. DARAGJATI: For the state, correct. And
16 I'm drawing upon my experience with civil rights
17 litigation. Asserting claims against the fund in
18 a federal jurisdiction would circumvent the
19 sovereign immunity statutes.

20 This is not an ERISA fund. I'm not sure how
21 someone would be able to assert a federal claim
22 against this fund. But, I mean, obviously I'm
23 going by the seat of my pants right now so I
24 can't think of each permutation that could come
25 up, but I'm just advising the Board what our

1 experience has been with these types of policies.

2 MS. McCAGUE: So perhaps we could gather
3 information from OGC and also from Paul's firm
4 and also Mr. Grice on some of these issues and
5 come back with more information next month.

6 MR. GRICE: I do have an entire copy, sample
7 copy, of the policy, which I can send
8 electronically. I think Debbie had asked me to
9 send a pdf version of that information. I'll
10 also include a copy of the policy itself.

11 MR. McCAGUE: Okay. Thank you.

12 MR. SCHEU: Could we, as part of that, get a
13 formal written response from the General
14 Counsel's Office?

15 MR. McCAGUE: Got that, uh-huh. Is
16 Mr. Durden here? Yes. Good. Okay.

17 CHAIRMAN SCHMITT: Any more questions for
18 Mr. Grice? Thank you, sir.

19 MR. GRICE: Thank you.

20 CHAIRMAN SCHMITT: So at this point I'm
21 inclined just to show that as received for
22 information purposes. We'll gather that
23 additional information, get a response from OGC,
24 get the input documented from our attorneys, and
25 I think we will make a formal assessment next

1 month at the regular meeting.

2 Under Old Business, 2015-1-5CA, Application
3 for Membership, David W. Marti. This is on there
4 as, "Previously approved under Trustee Rule 13.3,
5 amended to be cleared." I believe the advisory
6 committee has already signed off on this and this
7 is for informational purpose.

8 MS. McCAGUE: Correct.

9 CHAIRMAN SCHMITT: Show that received as
10 information.

11 The next item, 2015-12-6, Share Plan
12 Policies and Procedures.

13 Devin.

14 MS. McCAGUE: Devin is going to help me with
15 this. And I will tell you, I hate to put
16 pressure on you, but we do need to credit these
17 accounts no later than this afternoon. So if we
18 could talk through these issues, I would
19 appreciate it.

20 As a part of pension reform, I'm sure
21 you-all remember, there is a -- the share plan is
22 created. And the share plan, at the November
23 meeting, the trustees approved -- I'm sorry, the
24 October 19 meeting -- the trustees approved a
25 maximum of \$2 million of chapter funds that were

1 credited to the overall account.

2 2 million would go the holiday bonus, and
3 the remainder would go towards the funding of the
4 share plan.

5 So, Devin, do we have the exact number?

6 MR. CARTER: It was about 3.2 million.

7 MS. McCAGUE: 3.2 million will be credited
8 to the share plan.

9 So the trustees are responsible for not only
10 determining what amount, if any, would go into
11 that share plan, but also to give us guidance on
12 administrative pieces of the share plan.

13 So as we work through ITD and really
14 understanding the share plan, several issues came
15 up that we've taken first to the advisory
16 committee after the staff has done some work on
17 it, and we bring these to you today for your
18 decision.

19 So the first issue is very simple, and that
20 is, at what point does a member become a member
21 of the share plan? And the question had to do
22 with police recruits. Does the recruit become a
23 member immediately when they're hired, or do we
24 wait until they finish with their program and
25 become police officers?

1 So the staff thought through this. We said,
2 first of all, as we address these issues, our
3 goal is to keep this as simple as possible so
4 it's easy to understand and easy to administer.

5 And it came down to when the city hires an
6 individual on to the police force and they go on
7 to the academy, they are an employee. And so the
8 staff said, and the advisory group agreed, a
9 person would be eligible to begin participation
10 in the share plan the day they become employed by
11 the city.

12 If they don't make it through police
13 academy, then they're no longer a member of the
14 cadre and they're no longer a member of the share
15 plan.

16 MR. GREIVE: And it reverts back anyway.

17 MR. McCAGUE: It reverts back anyway.
18 That's right. You have to be employed ten years
19 before you're eligible to have a payout from the
20 share plan.

21 MR. GREIVE: Okay. That makes sense.

22 MR. McCAGUE: So is there discussion on that
23 point?

24 MR. PATSY: Not specifically, but is this
25 structured like a defined contribution plan?

1 MS. McCAGUE: Well, actually, it is. All of
2 the share plan money goes into the fund. And
3 what we are credited --

4 MR. PATSY: When you say "the fund," you
5 mean the Police and Fire Pension Fund.

6 MS. McCAGUE: The underlying fund. That's
7 right.

8 But what we'll do today is we will credit
9 amounts. We won't actually put cash into
10 individual accounts, but we will credit as if we
11 were putting cash in. But the investments are
12 within the underlying fund.

13 And, to your point, every September when we
14 take a look to see, did the plan earn money or
15 lose money, was there a gain or a loss, then
16 those accounts, each of those share plan
17 accounts, are adjusted plus or minus, depending
18 on how the underlying fund performed.

19 MR. SCHEU: Proportionately.

20 MR. McCAGUE: Proportionately. That's
21 right.

22 CHAIRMAN SCHMITT: And just a little more
23 background on it, again, for the newer members,
24 and, Paul, jump in any time if I forget a piece
25 here.

1 As part of the pension reform, one of the
2 components that was placed into the new agreement
3 is this share plan. It can only be funded by
4 Chapter 175 and 185 money.

5 The 10-plus million dollars that comes into
6 the fund each year from the state, the agreement
7 states that we will send 5 million of that to the
8 city, and the city uses that to help pay down the
9 unfunded liability.

10 The other remaining amount, 5-plus million
11 dollars, comes to the Board to decide what to do
12 with. The options are any and all funds -- you
13 can have it all go to the unfunded liability,
14 which given the circumstances of the concessions
15 that the employees had to give up, the Board, in
16 November, determined we weren't going to do that.

17 The employees, the members, had to give up
18 concessions. This was one of those things to
19 help make up for some of -- just part of those
20 concessions. It didn't make up for nearly all
21 those concessions.

22 A portion to go to the retirees. They call
23 it the holiday bonus, the Peyton bonus. In years
24 past, it's been around \$3 million.

25 And then the third option is to fund the

1 share plan. The amount that we decide to put
2 towards the holiday bonus was \$2 million, and the
3 remainder of the 5-plus million dollars to go
4 into the share plan. That is credited equally --
5 well, we'll get to that part later.

6 But that portion is credited to each of the
7 members' accounts. It will earn whatever the
8 fund earns. The investment returns that the
9 funds' investments earn, that what that account
10 will be credited, plus or minus, and you have to
11 be a member for ten years to receive a payout.

12 So if you had already had ten years when
13 this went into effect and you left -- you leave
14 next year, you get your share back.

15 So in a nutshell, does that cover it?

16 MR. CARTER: Uh-huh.

17 MR. PATSY: But participants don't get that
18 payout until they either leave or retire.

19 CHAIRMAN SCHMITT: Correct.

20 MR. PATSY: Once they have ten years. Okay.
21 So it stays?

22 MS. McCAGUE: That's right. And, by the
23 way, if someone has been here nine years, has
24 been part of the share plan for nine years and
25 leaves, they haven't met the 10-year mark in

1 employment, then the money -- whatever is
2 allocated to their account is redistributed.

3 But to your point, it is more like a defined
4 contribution plan because it ebbs and flows with
5 the actual performance of the fund. But the
6 employee is not putting additional money in.
7 It's only the money that comes -- that trustees
8 determine based on what's available in the
9 chapter funds.

10 MR. PATSY: So the decision has already been
11 made that we're going to put these funds into a
12 share plan?

13 MS. McCAGUE: That was made October 19.

14 MR. PATSY: Okay. Got it.

15 MR. SCHEU: So are you looking for a motion
16 that we adopt the staff recommendation? I mean,
17 what do you want us to do?

18 MR. McCAGUE: Thank you. Yes.

19 CHAIRMAN SCHMITT: Right. Each one of these
20 items here we have to decide today how
21 administratively we're going to handle each of
22 these items.

23 So the first item, you are correct, is the
24 staff recommendation is as soon as an employee is
25 placed on the payroll, they are considered an

1 active employee for pension purposes. Therefore,
2 the employee begins their eligibility to
3 participate in the share plan on the date of
4 hire.

5 MR. SCHEU: I so move. That really just
6 affects when the ten years ends, you know.
7 Because what is it, a 90-day probation?
8 Something like that.

9 CHAIRMAN SCHMITT: Well, they have to make
10 it through the academy and then they actually
11 have -- I believe it's a one-year probation time.

12 MR. PATSY: What's the attrition rate at the
13 academy?

14 CHAIRMAN SCHMITT: I don't have that
15 offhand. Really, the hiring process is where
16 most of them get weeded out. The ones that
17 actually make it into the academy, that's a
18 fairly high success rate.

19 MR. PATSY: Okay. Got it. Good.

20 CHAIRMAN SCHMITT: So that's the motion. Do
21 we have a second?

22 MR. TUTEN: Do we have a second yet? I'll
23 second.

24 MR. CARTER: Currently what we're doing,
25 just so you guys will not be confused, we're

1 trying to establish the procedures because that
2 is the Board's responsibility. So I just wanted
3 to share that.

4 CHAIRMAN SCHMITT: We have the motion. We
5 have a second. All in favor?

6 (Responses of "aye.")

7 CHAIRMAN SCHMITT: Opposed?

8 (No responses.)

9 CHAIRMAN SCHMITT: All right. That passes
10 unanimously.

11 MS. McCAGUE: Okay. We'll move to the
12 second one. Eligibility of DROP participants.
13 This was a little trickier as the staff and the
14 advisory committee did not agree.

15 So the situation is, a person is eligible
16 for the DROP and they enter the DROP. And the
17 question is, should they still be a participant
18 in the share plan while they are in the DROP?

19 So we discussed it and talked with our
20 outside counsel about it, and the outside
21 counsel's guidance is, well, once a person enters
22 the DROP, they're no longer participating in the
23 pension plan.

24 So if they're not participating in the
25 pension plan, then his recommendation was they

1 not be eligible to participate in the share plan,
2 that whatever is in the share plan would stay
3 there until they finish the DROP and then it
4 would be paid out.

5 MR. PATSY: DROP participants with a retiree
6 bonus that gets paid out --

7 MR. CARTER: This is DROP Phase 1, not Phase
8 2.

9 CHAIRMAN SCHMITT: The question is whether
10 the participants in the DROP, if they receive the
11 annual -- for lack of a better name -- Christmas
12 bonus, the answer to that is, no, they do not.

13 MR. McCAGUE: Oh, they do not.

14 MR. SCHEU: So this would be -- the staff
15 recommendation as contrasted with the advisory
16 committee would be consistent with the way the
17 DROP is handled. In other words, they don't get
18 it. They don't participate.

19 MS. McCAGUE: That's right.

20 MR. GREIVE: They wouldn't get either in
21 that case.

22 CHAIRMAN SCHMITT: Right.

23 MR. McCAGUE: Right.

24 MR. SCHEU: I so move.

25 MS. McCAGUE: I want to make sure you

1 understand. The advisors disagreed with us and
2 believed if you were on DROP, you still should
3 participate in the plan.

4 CHAIRMAN SCHMITT: And to give you a little
5 background on that perspective, many of the
6 employees that will be coming into this situation
7 have gone through this pension reform.

8 As part of that pension reform, they took
9 concessions. And during that whole process, it
10 got to a point where they felt like they were
11 forced into going into the DROP. So now they
12 have been forced into the DROP. Now that they're
13 in the DROP, we're going to say, Ed, you don't
14 get your share of the chapter funds, which these
15 chapter funds are just as much theirs as any of
16 these other members.

17 MR. SCHEU: But they're getting 8.4 percent
18 guaranteed rate of return on that dollar, the
19 ones that have been there.

20 CHAIRMAN SCHMITT: Right. But the ones that
21 are coming into this do not get the guaranteed
22 8.4.

23 MR. SCHEU: Right. But they're the new
24 people, roughly.

25 CHAIRMAN SCHMITT: Well, I'm included in

1 that group. You know, I've got 19 years. So all
2 of us who did not have 20 years on, when this
3 revision went into effect, are not going to get a
4 guaranteed 8.4. So there are a lot of members
5 who this will impact.

6 MR. SCHEU: But you get between 3 and 10, as
7 I recall.

8 CHAIRMAN SCHMITT: Correct. But, again,
9 their -- the advisory committee's perspective --
10 and these are all members of the plan -- their
11 perspective is, those individuals that are going
12 into the DROP, their portion of that chapter fund
13 money that's being put into the share plan, it's
14 unfair for them not to receive that.

15 And I can see their point. They've been in
16 this group the entire time. The rules change,
17 and all of a sudden we're telling them, Yeah,
18 we're not going to give you your share of the
19 chapter funds.

20 MR. SCHEU: But it's not their funds, those
21 chapter funds. I mean, they could be used to
22 fund the unfunded liability.

23 CHAIRMAN SCHMITT: Right. But they're not.
24 They're being used to put into the share plan
25 pot.

1 MR. SCHEU: But they didn't have the share
2 plan before.

3 CHAIRMAN SCHMITT: Neither did the members
4 who are getting their share of the share plan.
5 That's their perspective. And, again, I agree
6 with their perspective on if we're going to be
7 consistent with, you know, like, the first one,
8 day one, you're a member. Now we move to the
9 second one. Day one, you're a member and
10 everybody gets their share of the share plan.
11 Oh, unless you got into the DROP, then you're not
12 going to get a share plan. That seems
13 inconsistent to me.

14 MR. TUTEN: Okay. They're talking about
15 guys in the future. Are they talking about
16 people now? Like the minute we institute this
17 and then now? I mean, you're not talking about a
18 whole lot of money here for someone on the DROP.
19 At max, what would you get, for five years?

20 CHAIRMAN SCHMITT: Right.

21 MR. TUTEN: I mean, I think going back to
22 what Beth is saying, I think we need to try to
23 keep this as simple as possible. I understand
24 them wanting to be on the job. Okay, well, you
25 know, I should get some of the money too. But I

1 just don't think it's that big a deal. I just
2 don't.

3 And I'm like you. I've got 19 years on, you
4 know, almost 20. And I'm not getting 8.4, you
5 know. But at the same time, you know, I
6 understand all groups should benefit from the
7 chapter funds received. But the sad truth of it
8 is, all groups on the job today are not getting
9 the same pension plan anymore.

10 So I think going back to what Chairman
11 Bussells used to say, is the guys that are
12 currently on the job and in the future, you know,
13 they're the ones that are going to need this
14 money a whole lot more than a guy that's going on
15 the DROP. That's my opinion.

16 CHAIRMAN SCHMITT: Yeah, well -- and I don't
17 think it's necessarily our job to determine how
18 much money somebody needs. I think it's our job
19 to make these policies fair and consistent.

20 For us to say, Well, they don't need the
21 money, and they do, I think we're stepping way
22 out where we should as trustees.

23 MR. TUTEN: Yeah. But part of that is to
24 simplify the process as well. In other words,
25 instead of having -- because not everybody stays

1 a full five years. Some people stay three years
2 and six months, four years, two months, two
3 months and two days.

4 I mean, we're getting into a whole dynamic
5 of now we're going to have to keep track of every
6 individual person and make sure not only -- okay,
7 they're on the DROP, they're still getting their
8 share plan, but going back into the other parts
9 of this is, when exactly do they leave?

10 Okay. Now we've got to calculate. We've
11 got to -- to me, the pension fund has enough to
12 do without having to sit there and go through
13 every single person's account.

14 It's easy. You sign up for the DROP.
15 Congratulations. You get a 5 percent pay cut,
16 and here's your share of money. End of
17 discussion.

18 I think it makes the job here for everybody
19 easier. You know, the money thing, I understand
20 what you're saying there as far as who deserves
21 what. I think for simplicity's sake, I think
22 it's just -- I think this is the best way to do
23 it. That's just my opinion.

24 MS. McCAGUE: And let me just read you part
25 of the pension reform here Steve Durden is asking

1 to take a look at.

2 "Each January 1st, the share plan account of
3 each active participant on the city's payroll as
4 of the previous September 30th shall be credited
5 as follows: Each active participant who was
6 employed on the previous September 30th."

7 Each active participant. So technically, if
8 you're in the DROP, you're not an active
9 participant in the pension. And as I said, we
10 did refer this to the Klausner firm.

11 And, Paul, I don't know if you've had a
12 chance to talk with -- I don't want to put you on
13 the spot. And we do have the opinion from Bob
14 Klausner that since the employee is no longer
15 active once they're in the DROP, that they would
16 not be eligible.

17 MR. SCHEU: So then legally, under that
18 resolution, we can't -- we wouldn't be able to do
19 it anyway if it's limited to that.

20 MR. DARAGJATI: If I could just -- I don't
21 mean to interrupt anyone, any Board member, but I
22 just want to draw two points for the Board to
23 remember during discussion.

24 The first is, under the law, when you DROP,
25 you are retired. Period. You're no longer a

1 member of the plan under the eyes of the law.

2 And the second is that no member owns any
3 portion of the corpus of the plan. Each member
4 has a right to a benefit, the benefit that
5 existed at the time of normal retirement. But
6 they don't have a right to any particular money
7 sum in the plan.

8 I think those are important considerations
9 to take into account while you're deliberating
10 this issue.

11 CHAIRMAN SCHMITT: Anymore discussion?

12 MR. PATSY: Just a question.

13 Before reform, what happened to these
14 chapter funds?

15 CHAIRMAN SCHMITT: Well, a majority of it
16 went into a reserve account. And the only thing
17 that was paid out of there was the holiday bonus.
18 We didn't have any other mechanism to give money
19 out of the chapter funds to current active
20 members.

21 MR. PATSY: So was the reserved fund
22 depleted every Christmas?

23 CHAIRMAN SCHMITT: No, no, no. The reserve
24 balance now is around \$80 million.

25 MR. PATSY: 80?

1 CHAIRMAN SCHMITT: Yes.

2 MS. McCAGUE: It's part of the fund.

3 CHAIRMAN SCHMITT: That's part of -- in the
4 current agreement the city is paying an extra 5
5 million, 10 million, 15 and then 32 million for
6 ten years.

7 We're taking the reserve dollars and
8 matching those payments until that reserve is
9 depleted. So that's not even -- those funds are
10 completely separate from this money that came in
11 this year, the \$10 million that came in this year
12 that we said, City, okay, we're going to give you
13 \$5 million of this to help pay down the unfunded
14 liability.

15 The other \$5 million, we're going to put \$2
16 million towards the holiday bonus. The 3-plus
17 million dollars is going into the share plan. So
18 that's totally separate.

19 MR. PATSY: I apologize for going down a
20 rabbit hole on this --

21 CHAIRMAN SCHMITT: Oh, no.

22 MR. PATSY: -- so when we look at the
23 actuarial report, those reserve funds of 80
24 million, are they included in the market value of
25 the fund?

1 CHAIRMAN SCHMITT: They're categorized
2 separately, but the investment, the actual cash,
3 is in the investments.

4 MR. McCAGUE: It's in the fund.

5 MR. PATSY: Okay.

6 CHAIRMAN SCHMITT: It's earning the same as
7 all the other investments earn. Yes.

8 MR. PATSY: Okay.

9 MR. GREIVE: But from an actuarial
10 perspective will likely be separated out,
11 correct?

12 MR. CARTER: Uh-huh.

13 CHAIRMAN SCHMITT: Right.

14 MS. McCAGUE: Right. And just a note for
15 the record, the pension reform -- there was a
16 question about the minimum and maximum on DROP
17 for people who have been here less than 20 years.
18 And the minimum is 2 percent and the maximum is
19 14 1/2.

20 MR. SCHEU: Well, if you read the
21 legislation, the legislation limits it to active
22 participants. It doesn't seem to me that we have
23 any alternative but to -- if you're not an active
24 participant when you go in the DROP, they're not
25 eligibility under the terms with the agreement

1 with the city.

2 And so just to get it on the floor, if
3 you'll entertain it, I would like to move that we
4 adopt the staff recommendation.

5 CHAIRMAN SCHMITT: And the staff
6 recommendation is, since members are no longer
7 active members of the pension plan, they're not
8 eligible to participate in the share plan. Their
9 individual share plan account will be paid out at
10 the time they enter the DROP.

11 That's the motion.

12 MR. PATSY: I'll second it.

13 CHAIRMAN SCHMITT: Any further discussion?

14 (No responses.)

15 CHAIRMAN SCHMITT: All in favor?

16 (Responses of "aye.")

17 CHAIRMAN SCHMITT: Opposed?

18 (One response of "aye.")

19 CHAIRMAN SCHMITT: Passes 3 to 1.

20 MR. McCAGUE: Thank you.

21 Okay. The third area to consider on setting
22 policy is how to handle payouts during the course
23 of the year.

24 According to the reform ordinance, the
25 determination of the losses or gains in the

1 account is determined by where we stand on
2 September 30th of each year.

3 We are to credit the share plan accounts if
4 we choose to, the trustees choose to, the
5 following January.

6 Now, over the course of the year people
7 choose to retire. If they've been here ten
8 years, then they are eligible to have a payout of
9 that share plan.

10 So the question arose, Well, what happens if
11 somebody retires in June or July and they have,
12 say, \$1500 in their account; but the following
13 January when we would credit for the year ending
14 September 30th, the year in which they have
15 worked a portion of the year, there had actually
16 been a loss in the account.

17 Then should we wait and pay them out after
18 we figure out what the gain and loss is? Should
19 we pay them out when they retire, and then if
20 there's a gain or a loss, send an additional
21 check the following January or send them a bill
22 for the loss, or should we have a holdback?

23 There are any number of ways we could have
24 gone. And, again, we said, Let's make this as
25 simple as possible.

1 The pension reform documents say that the
2 active should be here on September 30 in order to
3 qualify for a share plan. So based on that, we
4 said, Whatever a person retires, whatever is in
5 their share plan account, that is what we would
6 pay them.

7 So if they leave in January or if they leave
8 before we've made the payment for this year, they
9 get what's in their account. If they retire in
10 February, March or April, they get what's
11 represented in the account. They give them the
12 check and that's it.

13 And so we talked to the advisory group about
14 that, and I think it's fair to say they were
15 totally fine with that.

16 Is that clear what we're talking about?

17 MR. PATSY: Yes.

18 But, Beth, going back to Rich's point
19 earlier about trying to keep this as simple as
20 possible, it would seem to me keeping -- paying
21 it out in January after the decision was made --
22 or the calculation could be made accurately would
23 be the simple solution as opposed to paying it
24 out at the time the person retires and then
25 having to go back and credit --

1 MS. McCAGUE: Well, actually, the
2 recommendation is that we just pay out whatever's
3 in the account on the retirement date.

4 MR. PATSY: Right.

5 MR. McCAGUE: That's it.

6 MR. PATSY: I got that, but going back to
7 Rich's point about trying to keep it as simple as
8 possible --

9 MR. McCAGUE: Right.

10 MR. PATSY: -- when that person retires in
11 June, you've got to go back and amend that
12 account in January.

13 MS. McCAGUE: No, no.

14 CHAIRMAN SCHMITT: No.

15 MR. PATSY: Oh, they don't get it?

16 MR. SCHEU: It's whatever is in the account.

17 MR. McCAGUE: Right, right.

18 MR. PATSY: Oh, okay.

19 MR. McCAGUE: Right. Whatever was in the
20 account on the day they retired, that's what they
21 get.

22 MR. PATSY: Okay.

23 MR. SCHEU: I felt when I first read this
24 that we ought to have the holdback because they
25 ought to bear -- get the earnings but also bear

1 the risk of losses.

2 But Beth convinced me that that would be an
3 accounting nightmare. We're not talking about a
4 lot of money anyway. So that it makes sense, as
5 Rich has said, just whatever is there is there.

6 MR. TUTEN: And I think with the holdback,
7 too, I mean, we're assuming that a person's
8 balance would be at the point where it would
9 actually go negative if -- I mean, are you
10 talking about a paper procedure where we take a
11 negative out of their account, in other words?

12 MS. McCAGUE: You've asked a very good
13 question. It depends on what the market is.

14 For instance, if you have a thousand
15 dollars -- a credit of a thousand dollars, on
16 February -- well, let's say December 31, you have
17 a balance of a thousand dollars.

18 But the returns for the previous year, which
19 would be credited in January, let's hope it
20 wouldn't happen, but the loss would be so great
21 that instead of a thousand dollars, you might
22 have \$700.

23 Well, if we paid you a thousand dollars,
24 then how would we go back and get that \$300 from
25 you?

1 MR. TUTEN: Well, let me ask you this, then.
2 I'm trying to understand.

3 How -- we're doing it based on the return of
4 the fund --

5 MS. McCAGUE: As of the previous September
6 30.

7 MR. TUTEN: -- at the percentage. So if
8 they had a thousand dollars and the fund lost 7
9 percent, it was negative 7 for the year --

10 MR. McCAGUE: Right.

11 MR. TUTEN: -- I mean, they would still -- I
12 mean, to me it seems like it's just a
13 clerical-type thing where we debit and credit.
14 We don't have to actually, you know, take the
15 money out. I mean, I don't really see the need
16 to have -- when you say holdover, is this -- you
17 know, just like a petty cash, slush fund we're
18 going to keep on the side --

19 MR. McCAGUE: No, no --

20 MR. CARTER: No, no.

21 MS. McCAGUE: -- and this is only
22 accounting. There's no money involved until we
23 write the check.

24 MR. TUTEN: Even just at the balance --

25 MR. McCAGUE: Right, right.

1 MR. TUTEN: Okay. I got you.

2 MR. McCAGUE: But if you -- if you pay
3 somebody out in June and then in September you
4 find out there's a loss in the account --

5 MR. TUTEN: Right.

6 MR. McCAGUE: -- then you would have to
7 adjust -- go back and adjust what you had paid
8 them. If there was a loss, then they would owe
9 you money. They would owe the fund money.

10 On the other hand, if there was a gain, then
11 you would send them an additional check. But,
12 one, that gets very complicated accounting-wise.

13 MR. TUTEN: I agree.

14 MS. McCAGUE: But, two, they're not on the
15 payroll on the 30th of September. And so we
16 said, Let's just give them the check when they
17 get ready to retire -- when they retire.

18 MR. SCHEU: And that would be based on the
19 previous September 30.

20 MR. McCAGUE: The previous September 30.

21 MR. SCHEU: Whatever is there is there. You
22 convinced me that that was --

23 MR. GREIVE: So they have no interest for
24 the period from last September 30 to whatever day
25 they leave.

1 MS. McCAGUE: That's correct.

2 CHAIRMAN SCHMITT: Or potential loss.

3 MR. GREIVE: Or potential loss.

4 MR. McCAGUE: Or a loss. That's right.

5 Because the accounts are credited in January
6 based on how the fund performed in the previous
7 September.

8 MR. GREIVE: So, then, I'd be curious to
9 talk to Jarmon or some actuary about what their
10 projection of that would look like over time.

11 When I saw the staff recommendation, I was a
12 little concerned because that was different, you
13 know, from what we talked about a few weeks ago
14 when we were here. The last time we talked, I
15 thought we were at the, Let's lean down the path
16 of doing a holdback.

17 However, in hearing the discussion over the
18 last couple of minutes and then thinking about it
19 off the cuff, it would seem that over time, by
20 not paying people interest, you know, for
21 whatever period, from September 30 through
22 whenever they leave the next fiscal year, the
23 fund should net out ahead.

24 CHAIRMAN SCHMITT: Hopefully.

25 MS. McCAGUE: Hopefully.

1 MR. CARTER: Hopefully.

2 MR. GREIVE: There will be occasional years
3 where the fund will take a loss on that
4 mechanism. But over the majority of time, the
5 fund will likely come out ahead. Again, off the
6 cuff. I would probably want to talk to an
7 actuary about it.

8 The only other thing I was thinking is that
9 if there is a loss, you know, the Board could
10 consider implementing a policy where it would
11 take the loss from the balance to be
12 redistributed.

13 MR. CARTER: Yes, that's the plan.

14 MR. McCAGUE: Well, we had thought about
15 that also, but, again, we tried to keep it as
16 clean as possible. And, remember, the account is
17 only credited once a year in January. So anybody
18 who retires from February --

19 MR. GREIVE: Wouldn't be entitled to any
20 credit.

21 MS. McCAGUE: Any further credit or loss.

22 MR. GREIVE: The fund should net out ahead
23 over time on that.

24 I would just suggest that the Board think
25 about, and it sounds like maybe you already have

1 a little bit, over time, in the years where there
2 is a loss, instituting a mechanism where you can
3 go in and recapture that loss from the balance of
4 funds to be redistributed from people who left.

5 MS. McCAGUE: And that would be an
6 administration policy issue.

7 MR. GREIVE: I think that would be Board --
8 you could adopt it like you're adopting this
9 stuff, it sounds like. I'd defer to General
10 Counsel and your outside counsel, but perhaps
11 that's a path.

12 MR. McCAGUE: Okay. Thank you.

13 MR. PATSY: So clarify for me. When I read
14 this staff recommendation on the page, that
15 doesn't -- it doesn't sound like what you
16 recommended verbally. Am I missing a point here?

17 MS. McCAGUE: Well, let's see.

18 "The retired member shall receive a pro rata
19 amount of the share plan credited to the account
20 based on the number of months worked the previous
21 fiscal year."

22 Let's see. They have to work 12 months --

23 MR. PATSY: Because of the following January
24 component of it --

25 MR. SCHEU: Yeah. That's inconsistent with

1 the first sentence. These two sentences are
2 inconsistent.

3 MS. McCAGUE: Okay. Let me work on that
4 language, but what I would ask you-all to
5 consider is, if you so choose, allowing us --
6 allowing the policy to be that whenever anyone
7 retires, whatever is in their share account, that
8 is the amount that they get.

9 CHAIRMAN SCHMITT: As of the previous
10 September 30.

11 MS. McCAGUE: Well, their account isn't
12 credited until January.

13 MR. GREIVE: So it would be as of the
14 previous September 30, correct?

15 MS. McCAGUE: Well, then that causes a
16 problem if somebody retires in October, November,
17 December.

18 MR. CARTER: They would get the share the
19 following year because it's credited in January.

20 MR. McCAGUE: It's credited in January.

21 MR. SCHEU: It's really whatever is in the
22 account January 1 after crediting --

23 MR. McCAGUE: From the previous year.

24 MR. SCHEU: Right. It's really the January
25 1 date.

1 MS. McCAGUE: Yeah. So if somebody retired
2 in October, what would be in their account would
3 be what we credited in January of that year, and
4 that's the amount they would get.

5 CHAIRMAN SCHMITT: Okay.

6 MR. SCHEU: And that's the simplest way to
7 do it. Yes. I'll move that.

8 CHAIRMAN SCHMITT: Do you want to summarize
9 that motion?

10 (Laughter)

11 CHAIRMAN SCHMITT: Pay the retiring employee
12 the balance of their individual account at their
13 retirement based on the amount that was in their
14 account on January 1 of the previous year.

15 MS. McCAGUE: No, not January 1 because we
16 credit in January. So it would be January 31.

17 CHAIRMAN SCHMITT: Okay. Clarify it to be
18 January 31 of that same year they retired.

19 MR. McCAGUE: Yes.

20 MR. TUTEN: Second.

21 MR. McCAGUE: Thank you.

22 CHAIRMAN SCHMITT: All right. All in favor?

23 (Responses of "aye.")

24 CHAIRMAN SCHMITT: Opposed?

25 (No responses.)

1 CHAIRMAN SCHMITT: Carries unanimously.

2 MR. TUTEN: Beth, you are going to type a
3 new one of these up --

4 MR. McCAGUE: Yes, sir.

5 MR. TUTEN: -- with an up-to-date
6 clarification on all these little caveats we have
7 here?

8 MR. McCAGUE: Yes. I may ask help from our
9 counsel down there, both of them.

10 MR. DARAGJATI: What I've seen also in other
11 share plans is that there tends to be an ongoing
12 surplus due to forfeitures, due to abandonment,
13 due to a multitude of reasons. So I don't think
14 there's a danger of the fund going into the
15 negative based upon the lag time. I just want to
16 put that out there.

17 MR. TUTEN: I don't worry about the
18 negative.

19 MR. SCHEU: So in the actuarial report, even
20 though this is all part of the fund, this is
21 separately --

22 CHAIRMAN SCHMITT: Classified.

23 MR. SCHEU: -- separately classified so that
24 it doesn't -- okay.

25 MS. McCAGUE: And this last request has to

1 do with time service connections. And, again,
2 the staff and the advisory committee were in
3 agreement.

4 And the question is, when does someone who
5 is bridging service become eligible to
6 participate?

7 So as you know, if you're coming from the
8 city, you can bridge up to five years of service.
9 If you're coming from military, you can bridge up
10 to two years of service.

11 So if an individual begins work and then
12 bridges two years of service or five years of
13 service, when do they become eligible?

14 And so the staff determined that just like
15 we handle in the pension, if we start someone --
16 if we bridge service for the pension purposes,
17 then we would also bridge service for the share
18 plan.

19 So that doesn't mean we would go back -- if
20 they bridge five years of service, that doesn't
21 mean we will go back and say, Okay, we'll give
22 you the last five years of what we've already put
23 in the share plan.

24 No. We would say, Okay, beginning the fifth
25 year, you bridge with us, now you work with us,

1 so you're eligible for a share plan. But if you
2 retired at the end of the fifth year here, then
3 you would get the payout because you had bridged
4 the first five years.

5 MR. SCHEU: It's for vesting purposes.

6 MR. McCAGUE: Right. Does that make sense?

7 MR. SCHEU: Uh-huh.

8 CHAIRMAN SCHMITT: So basically there is no
9 retro for the share plan.

10 MR. McCAGUE: Correct.

11 MR. CARTER: That was to determine
12 eligibility for the share plan. So meaning when
13 you come into the plan, that's your effective
14 date to participate in the share plan rather than
15 you connecting time --

16 CHAIRMAN SCHMITT: Time only.

17 MR. CARTER: -- from previous years and
18 defaulting back to October 1. So we're saying
19 when you first come into the plan, that's your
20 beginning date.

21 MR. TUTEN: I'll make a motion we accept it.

22 MR. PATSY: I'll second it.

23 CHAIRMAN SCHMITT: All in favor?

24 (Responses of "aye.")

25 CHAIRMAN SCHMITT: Opposed?

1 (No responses.)

2 CHAIRMAN SCHMITT: Passes unanimously.

3 MR. McCAGUE: Thank you very much.

4 CHAIRMAN SCHMITT: The time is 10:00 here.

5 Is Mr. Schickel here?

6 MR. McCAGUE: Not here yet.

7 CHAIRMAN SCHMITT: Would you like to take a
8 five-minute break and see if he shows up and
9 we'll start with him after the break?

10 MR. McCAGUE: That's a great idea.

11 CHAIRMAN SCHMITT: All right. We'll return
12 in five minutes.

13 (A break was taken; thereafter, the Board
14 meeting continued as follows:)

15 CHAIRMAN SCHMITT: Back to order. We're
16 going to go out of order again from the agenda
17 and drop down to under Legal, 2015-12-2,
18 Consideration of settlement of lawsuit, City of
19 Jacksonville versus PFPF Board of trustees and
20 John Keane. We have Jake Schickel here to give
21 us a little overview.

22 Jake, would you like to come up here?

23 MR. SCHICKEL: I'll be happy to answer
24 questions more than anything else. I think
25 everybody has a copy of the legislation that has

1 been provided as well as the agreement that we
2 reached. It did a number of things, we thought,
3 which, in essence, laid out each side's position
4 in terms of the issues involved.

5 And then did as we do in many types of these
6 cases recognize that no one is admitting or
7 denying that they did anything improper or
8 illegal, and resolve the case. I have worked
9 with John and he's approved this. And I think
10 we're ready to go forward.

11 If you have any questions.

12 CHAIRMAN SCHMITT: So we would, as a Board,
13 need to approve this settlement as it is here?

14 MR. SCHICKEL: Yes.

15 CHAIRMAN SCHMITT: Assuming that it gets
16 approved by the Board, it would then go before
17 the City Council and they would do the same?

18 MR. SCHICKEL: That's my understanding,
19 correct. Rita Mairs is here from the General
20 Counsel's Office to comment on that part. I'm
21 not -- I'm not political.

22 MS. MAIRS: Thank you. Rita Mairs with the
23 Office of General Counsel.

24 If the Board were to approve the proposed
25 agreement, the next step would be for it to go

1 before the finance committee. And usually that's
2 on a Monday, but because of a holiday, it will be
3 on a Tuesday, on February 16. And assuming it
4 comes out of committee, then it would go before
5 the full council on February 23 and we would
6 hopefully be putting this behind us.

7 MS. McCAGUE: The finance committee is the
8 only committee it goes to, correct?

9 MS. MAIRS: Yes, ma'am. I confirmed that.

10 MR. McCAGUE: Thank you.

11 COUNCILMAN HAZOURI: The only committee?

12 MR. McCAGUE: Finance.

13 MR. SCHEU: I talked to Jake yesterday and
14 he helped me understand some of the dollars on
15 the computation of the last two years because I
16 was confused with that, the numbers. But I don't
17 know the internal calculations, but the concept
18 is fine.

19 But the thing that -- just for the record, I
20 never -- this shows the inherent conflict of
21 interest that we've got with the General Counsel
22 because they're suing us and they're still our
23 counsel.

24 But I've never felt that the so-called
25 memorandum from Cindy Laquidara to John

1 Crescimbeni was a binding opinion. And we're
2 giving up the formal right to contest that in
3 this. But I just think -- for the record, I've
4 never -- that was a memorandum to one council
5 member, Mr. Crescimbeni, and it was not issued to
6 us nor to the City Council as a whole. So I
7 don't really think it's a binding opinion, but
8 that's by the Board now.

9 In the long run, as Jake and I discussed,
10 the memorandum just says that only the City
11 Council could have -- could create a plan for
12 city employees. But unstated is that John Keane
13 was not and is not a city employee. So the
14 memorandum really was off point anyway. I just
15 wanted to say that on the record.

16 MR. SCHICKEL: I think that we've handled
17 that. We did not admit that it was binding.

18 MR. SCHEU: Right.

19 MR. SCHICKEL: There was a bone of
20 contention. We discussed and debated this all
21 the way through.

22 In terms of the numbers and so forth, Joey,
23 I think, has done the numbers, so to speak, as
24 well as we had another person that could do that.
25 You're the only lawyer I know that can do math.

1 The rest of us are lawyers because we can't do
2 math. So it was a real challenge for me to get
3 through all of this.

4 (Laughter)

5 MR. SCHEU: I obviously couldn't because I
6 wasn't reading it right.

7 I mean, was that . . .

8 MS. MAIRS: Yes, sir. Through the chair to
9 Mr. Scheu, we did have some back and forth over
10 binding versus a preliminary legal opinion. We
11 decided that we disagree on that. We both have
12 different views of whether it's legally binding,
13 so we just called it a legal opinion for purposes
14 of the settlement agreement.

15 And then, of course, if the settlement
16 agreement does not ultimately get approved, then
17 we'll fight that out in court. But, otherwise,
18 we're both agreeing to lay down the sword to
19 attempt to put this behind us, and we tried to
20 stay very true to the way that you calculate
21 things under the senior plan versus the way that
22 you calculate things that are debt.

23 And for 22 years of Mr. Keane's service, we
24 calculated just as everything would be given
25 under the senior plan, from COLA to determining

1 the final average compensation.

2 I mean, we tried to make it as simple as
3 possible, that if someone came behind us, they
4 could see clearly what we did, and we think it's
5 a fair settlement.

6 MR. TUTEN: I have a question. How many
7 hours do you think the General Counsel's Office
8 has spent on this issue?

9 MS. MAIRS: That's a good question.

10 MR. TUTEN: 20, 30, a hundred?

11 CHAIRMAN SCHMITT: Perhaps we can make a
12 public records request.

13 (Laughter)

14 MR. SCHEU: Let's ask Mr. Lee to do that.

15 MR. TUTEN: Yeah? Okay. Never mind.

16 MR. GREIVE: More than one, less than 500.

17 MS. MAIRS: You certainly could. I mean,
18 you know, we've spent -- I understand Mr. Scheu
19 wrote up the conflict of interest and it's
20 something that we often deal with in our office,
21 and we try very hard to only have certain
22 attorneys working on this issue.

23 We're well aware that Mr. Durden comes
24 every -- to all the Board meetings and represents
25 you. So we try to wall off the attorneys, and we

1 have to do that in other issues as well.

2 So it's really been myself and one other
3 attorney that's been researching this matter, and
4 we have spent considerable time.

5 CHAIRMAN SCHMITT: And that's -- the whole
6 conflict of interest with the attorneys is a
7 whole nother issue --

8 MS. MAIRS: Yes, sir.

9 CHAIRMAN SCHMITT: And I certainly don't
10 think there's anything inappropriate on the part
11 of the attorneys. It's just that the situation
12 that you're put in as an attorney, to me, is
13 inappropriate. But, again, we've had many
14 discussions on that as well.

15 In an overview of the lawsuit, obviously it
16 was politically driven and quite silly, and I
17 would love to not waste any more time on it. I'm
18 pleased that you-all were able to hammer this out
19 to a point where I think we can support it.

20 COUNCILMAN HAZOURI: Am I ask -- Rita, two
21 things. So it doesn't have to go to Rules?

22 MS. MAIRS: No, sir.

23 COUNCILMAN HAZOURI: I thought that all of
24 them did, but this is a learning thing for me
25 too. It goes straight to finance.

1 Now, is this considered like a binding
2 arbitration here, so if it comes to finance, if
3 they -- I'm not saying this is happening. I just
4 know some of the players and you-all do too.

5 MS. MAIRS: Right.

6 COUNCILMAN HAZOURI: If something happens
7 where they don't agree with the settlement or the
8 amount or what have you, what happens from there?

9 MS. MAIRS: There is no settlement. It's
10 got to get all the way --

11 COUNCILMAN HAZOURI: So this is not
12 considered like a binding, that you have to
13 accept it or -- I guess you do, or reject it.
14 You can't amend it?

15 MS. MAIRS: Right.

16 COUNCILMAN HAZOURI: Can you amend it?

17 MS. MAIRS: Certainly we could amend -- I
18 mean, I would think that if, for instance,
19 council refused to approve it or they wanted to
20 amend it, but then we're going to have to go back
21 through this process again.

22 COUNCILMAN HAZOURI: That's what I wanted to
23 ask you about.

24 MS. MAIRS: We're going to have to come back
25 here.

1 COUNCILMAN HAZOURI: That's need to be
2 explained -- well, I know you-all will because --

3 MS. MAIRS: Yes. I mean, anything -- I can
4 never tell council it's all or nothing.

5 COUNCILMAN HAZOURI: I'm just basing this on
6 like what you read in the paper. Is this enough?
7 You see these letters, you know. That's not very
8 much money, or blah, blah, blah. And I just can
9 envision what would happen and I'm not speaking,
10 obviously, for the council, and I wouldn't --

11 MS. MAIRS: Right.

12 COUNCILMAN HAZOURI: -- because I can't, but
13 I was just wondering what the procedure and the
14 process would be. If that happened, this goes
15 back to the same circle again.

16 MS. MAIRS: That's right. And that's why we
17 tried to make it very -- not so much focus on
18 what anybody wanted a number to be, but to focus
19 on a formula that, up until 2012, after the legal
20 opinion was issued, you know, it's as if he
21 (inaudible) and either you kind of accept that
22 concept or you don't. And we're hoping there
23 won't be a lot of change --

24 COUNCILMAN HAZOURI: I think that's going to
25 be important --

1 MS. MAIRS: I think so too.

2 COUNCILMAN HAZOURI: -- you know, to tell
3 them how that formula worked and how you-all came
4 to that number, because otherwise, you know, they
5 can just throw up anything --

6 MS. MAIRS: Right.

7 COUNCILMAN HAZOURI: -- like we do all the
8 time --

9 MS. MAIRS: Right.

10 COUNCILMAN HAZOURI: -- and then if it
11 sticks, it sticks. If it doesn't, it doesn't.
12 So I think that the more that they know, the less
13 debate I think there will be, obviously.

14 MR. SCHEU: I think this is one of those
15 great accomplishments and I hope the City Council
16 approves it because it's part of moving on. Beth
17 has been so good in the transition. There are
18 other things coming along. But we need to start
19 looking forward and not backwards.

20 COUNCILMAN HAZOURI: Right. You-all have
21 done a good job. I was just saying that I've
22 watched in the last couple three months. I mean,
23 it's like a whole new wave of clean weather,
24 no -- no --

25 CHAIRMAN SCHMITT: Drama.

1 COUNCILMAN HAZOURI: Not just drama, you
2 know, with no El Nino or no anything. That's all
3 behind us and hopefully there's clear skies
4 ahead. And I think you-all -- my own observation
5 is, if the council could see and if the public
6 could see what you-all have been doing in the
7 last couple of months, I think they would be
8 totally impressed. And I can't speak for you.

9 CHAIRMAN SCHMITT: Well, I'll take this
10 opportunity to go a step further and commend Beth
11 for the work that she's done --

12 COUNCILMAN HAZOURI: Great job.

13 CHAIRMAN SCHMITT: -- in all this. I mean,
14 she's leading the team in the right direction and
15 it's really been a positive, positive change.

16 COUNCILMAN HAZOURI: We'll call her Mother
17 Teresa.

18 (Laughter)

19 MS. McCAGUE: And council has been very
20 helpful too. As a matter of fact, the
21 conversation we just had about the share plan,
22 Bill Gulliford introduced a bill regarding
23 clarification of the pension reform, because in
24 the pension reform, you may remember, they asked
25 for separate -- 175 funds to go to firefighters

1 only and 185 to police. And our plan has always
2 been unified. He took that back through the
3 finance committee and to council and that was
4 approved last Tuesday. So we're very grateful
5 for that.

6 So I think all that's to say working
7 relationships are improving.

8 CHAIRMAN SCHMITT: Paul.

9 MR. DARAGJATI: Just one question. I think
10 I know the answer to this, but I'm going to ask
11 it anyway.

12 If it does get into committee or in front of
13 the full council and things get contentious, is
14 it the Office of General Counsel's position to
15 advocate for this deal, or what is the office's
16 position?

17 MS. MAIRS: It's always difficult, as we
18 have lots of clients. I mean, I think that, you
19 know, certainly we worked hard on it. We think
20 it makes sense. We will listen to council's
21 concerns.

22 And, you know, we're really -- we're really
23 not there necessarily to advocate, but to tell
24 them what their options are. And they said that
25 they understood they were passing a resolution

1 for the lawsuit, but they also encouraged
2 settlement, if possible, and that we believe this
3 to be a fair settlement. You know, but, again,
4 we have to listen to our client.

5 CHAIRMAN SCHMITT: All right. Any further
6 comments, questions?

7 MR. SCHEU: I would like to thank Jake for
8 his representation. It's an unusual thing.

9 MR. SCHICKEL: It's a pleasure.

10 CHAIRMAN SCHMITT: And a great deal of
11 patience.

12 So we'll need a motion to approve the
13 settlement agreement between the City of
14 Jacksonville, John Keane, and Jacksonville Police
15 and Fire Pension Fund Board of Trustees.

16 It's our attachment 2015-12-2(b), pages 1
17 through 6. Anyone want to make that motion?

18 MR. PATSY: I'll make it.

19 MR. SCHEU: I'll second.

20 CHAIRMAN SCHMITT: Further discussion?

21 (No responses.)

22 CHAIRMAN SCHMITT: All in favor?

23 (Responses of "aye.")

24 CHAIRMAN SCHMITT: Opposed?

25 (No responses.)

1 CHAIRMAN SCHMITT: Passes.

2 MR. McCAGUE: Jake, thank you very much.

3 CHAIRMAN SCHMITT: All right. Back in order
4 with the agenda, the next item under Old
5 Business, 2015-12-7 is Frequent Travel Awards.

6 MS. McCAGUE: We'd ask Paul to talk on this.
7 You-all have seen this policy several times.
8 There's been discussion about it. We've tried to
9 bring this to a vote last time, but without a
10 quorum, we had to defer until today.

11 All we're trying to do a ratify a policy
12 that would allow employees to use frequent flyer
13 miles that they have may accrued in the use of a
14 corporate credit card. I want to make it clear,
15 at this time we have no corporate credit cards of
16 any type, but we may in the future.

17 So we did not have anything in the policy
18 about that, so we're adding this to the policy --
19 or requesting that it be added to the policy.

20 Paul.

21 MR. DARAGJATI: And the question was
22 presented to my firm whether or not frequent
23 flyer miles are taxable and whether or not they
24 are income.

25 We did the research, and the IRS has issued

1 some clear guidance on this and it's encapsulated
2 in the opinion, that the frequent flyer miles do
3 not create a taxable event unless they are
4 converted to some type of monetary remuneration.

5 In other words, if, per your duties, you
6 travel to conferences, and you're probably going
7 to because this really is a complex area of
8 endeavor, and generate points on your credit
9 card, frequent flyer miles, whatever it is, you
10 don't have to declare them on the taxes. They
11 are not pay because you're not authorized by
12 statute to be paid for your service.

13 You don't -- again, unless you have a means
14 of converting them to money, it's not a taxable
15 event.

16 The second thing is whether or not keeping
17 them is a violation of the Florida ethics laws.
18 And we did research on that and they are -- the
19 Florida Ethics Commission does not have a
20 position on frequent flyer miles earned as a
21 result of traveling for business.

22 Now, there are ethics commissions and laws
23 around the country where they've considered this
24 and found that it does not conflict with any of a
25 public officer's duties.

1 The United States government has a policy on
2 it; New York State and a number of other states
3 as well.

4 Although it's not memorialized in this
5 opinion, I believe we also found a -- Palm Beach
6 County Board of Ethics issued an opinion that
7 frequent flyer miles are not -- they don't --
8 keeping them does not run contrary to any ethics
9 code that exists in Palm Beach County.

10 So every -- every court that's looked at it,
11 every legislation that's looked at it have all
12 been in unison that outside of some type of
13 conversion to a monetary benefit, they are not a
14 taxable event and they do not violate any ethics
15 laws that control at the state or local level.

16 CHAIRMAN SCHMITT: Going back, I remember
17 during some of our previous discussions during
18 previous meetings we checked to see what the
19 city's policy was and what the State of Florida's
20 policy was, and if I remember correctly, the city
21 does not have a policy referencing frequent flyer
22 miles.

23 So they don't -- and the information I
24 received was that employees -- city employees who
25 travel and get frequent flyer miles keep those

1 miles, City of Jacksonville employees. And the
2 state, if I remember correctly, also had a
3 similar type procedure.

4 I think this has gotten far more complicated
5 than it needs to be. It's a fairly simple policy
6 in my opinion. If you travel on pension fund
7 business and you earn frequent flyer, you keep
8 the frequent flyer miles. It full it doesn't
9 cost the fund any money.

10 It is a perk for the person who travels,
11 which I personally would prefer not to, but that
12 is why most companies and many government
13 agencies allow their employees to keep those
14 miles as a perk, because traveling is not fun. A
15 lot of people who don't travel think it is. I
16 don't even joy, but that is a perk for people to
17 take on that responsibility of traveling.

18 So I think this is consistent with local
19 precedence. It's consistent with the state
20 precedence and well within the laws and the
21 rules.

22 And than one last comment. We do have laws
23 against theft. They are in the state statutes.
24 It's illegal to steal. So there isn't a policy.
25 It's a state statute.

1 MR. SCHEU: Your recollection is right. All
2 this other -- the city and the state, and I read
3 the opinions that Bob had and we do have an
4 opinion of our counsel. If it's not taxable, if
5 it's not compensation, it's not liable to -- I
6 appreciate what Mr. Lee said this morning.

7 And we can just agree to disagree, but our
8 attorney has opined, and I would like to move the
9 adoption of the -- ratification of the policy.

10 CHAIRMAN SCHMITT: Do we have a second?

11 MR. PATSY: I second it.

12 CHAIRMAN SCHMITT: Any further discussion?

13 (No response.)

14 CHAIRMAN SCHMITT: All in favor?

15 (Responses of "aye.")

16 CHAIRMAN SCHMITT: Opposed?

17 (No responses.)

18 CHAIRMAN SCHMITT: None opposed. Passes
19 unanimately.

20 The next item on the agenda, 2015-12-18,
21 Review of proposed language for Standing
22 Operating Procedures for Contract Agreements.

23 MR. McCAGUE: Yes. Mr. Scheu is going to
24 comment on this.

25 MR. SCHEU: Yes. We had talked about this

1 before this arose as part of a motion, that we
2 reconsider at this time the relationships with
3 the actuary and with our special counsel,
4 Mr. Klausner's firm, and there was one other. I
5 guess it was the physician.

6 But their contracts had already been in
7 place. So what this does is just adopts policy
8 to review them at a minimum of our every three
9 years of our professional service agreements.

10 And I would like to move that we do that. I
11 think that's good practice. It's like your
12 auditor. And I would so move. And then I've got
13 another motion after that.

14 MR. PATSY: Is it three or five?

15 MR. SCHEU: Oh, it's five. Excuse me.

16 MR. PATSY: It's five. Okay.

17 MR. SCHEU: I would not be opposed to
18 changing it. Well, it does say five and three,
19 doesn't it?

20 I'd say three rather than five.

21 MR. CARTER: Yeah. Some agreements are
22 every five years and some are every three. The
23 actuary is every three. Typical with the
24 auditors can be three to five, depending. So I
25 think that's why the five and three years is

1 there.

2 MS. McCAGUE: But we're saying three.

3 MR. CARTER: Yeah, but we're saying three
4 for clarification, right?

5 MS. McCAGUE: And this does not mean that
6 you would have to leave one provider and go to
7 another, but it would have to be a conscious
8 decision that we're going to renew -- or RFP and
9 then review or decide not to RFP. That would
10 still be within your purview, but it would have
11 to be a discussion and a conscious decision.

12 MR. PATSY: Beth, for background, I assume
13 that we haven't reviewed these agreements in some
14 time?

15 MS. McCAGUE: Well, I can't say we haven't
16 reviewed them, but I can say that we've had
17 long-standing contract renewals year after year
18 with certain providers.

19 For instance, our actuary has been our
20 actuary since the beginning of time. And, of
21 course, the Klausner Firm has -- I don't know if
22 it's since 1990, but for many, many years he's
23 been our outside legal counsel.

24 Our auditors are relative new. Our medical
25 director has been with us for many, many, many

1 years.

2 So those contracts are renewed, but it may
3 have been more an automatic renewal versus a real
4 intentional look to see what is the market
5 providing, et cetera, and a comparison.

6 MR. PATSY: My experience with it is that
7 when you do that and you do -- if you decide to
8 issue an RFP, many times you come back and you're
9 learning about some other practice or some other
10 talent that's out there that gives you an upgrade
11 over what you currently have, would be you're not
12 happy with what you see as a result of the RFP
13 and stay with what you've got.

14 So it's a good -- it's a good process.

15 MR. TUTEN: Do we -- I don't know -- I mean,
16 we renew contracts every year and all that kind
17 of good stuff. I mean, is this just a formal way
18 of us saying, Okay, let's get together and talk
19 about our different guys and see what we want to
20 do with them?

21 MR. PATSY: From a transparency perspective
22 as well as a professionalism perspective, it's a
23 good practice to have.

24 MR. TUTEN: Well, let me ask you this, then.
25 Before we do that, before we start all that, are

1 there going to be any sort of -- I won't say
2 qualifiers, but are we going to have a plan as to
3 what we're looking to inspect or, you know, talk
4 about or judge them by?

5 MR. SCHEU: Sure.

6 MR. TUTEN: An outline as far as, Okay, this
7 is what we want to talk about. Fees, for
8 instance. I mean, some sort of matrix we can go
9 by or are we just going to sit around --

10 MR. SCHEU: You could do it any way you
11 wanted. You might say, We'd like to see what is
12 in the market. So you put out an RFP and you
13 interview people, and you decide whether you're
14 happy with the person that you have or whether
15 the rates, the fees, could be reduced.

16 So anything is on the table, but it's just
17 means that you --

18 MR. TUTEN: I have no problem with that.
19 The only thing I'll cautious is, you know, with
20 the pension fund, much like when you come on the
21 job, you know, the city says, Here, be a fireman
22 and we expect a 30-year commitment out of you.
23 It's the same thing with our providers,
24 consultants, attorneys.

25 Once they're with us for a while, you know,

1 they know us, they know our issues, they know
2 what we've dealt with, what we're dealing with,
3 what we're going to deal with. I have no problem
4 inspecting them. I just don't -- my fear is that
5 this is coming from somewhere other than just
6 good stewardship.

7 In other words, this is coming from, Okay,
8 we don't like Bob Klausner; let's interview a new
9 law firm, see if we can hire somebody else.

10 MR. SCHEU: No, that's not it. But it's --
11 like in the case of auditors, it's good -- it's
12 best practices every three to five years, you
13 review your auditors so they don't get too
14 comfortable with you because your auditor is
15 supposed to be independent.

16 So that best practice. So expanding that to
17 the other professional providers is really a good
18 practice.

19 MS. MCCAGUE: But to answer your question,
20 from my perspective, for instance, if we took
21 a -- if we came around and looked at our actuary
22 and said, Okay, let's RFP the actuary and see
23 what's out there. Then we might say to the
24 trustees, Okay, what's most important to you as
25 we look at an actuary, and make up our criteria

1 there, which might be different than if we were
2 going to RFP for legal services, what might be
3 most important there.

4 So I wouldn't say that we would just carte
5 blanche go to the market for every single one of
6 these contracts as they came up, but we would sit
7 down and say, Okay, do we want somebody who is a
8 big firm or small firm? Do we want somebody
9 who's got a lot of public pension experience?

10 What are the criteria that are most
11 important to us for this particular service
12 advisor?

13 And, also, the money managers, those
14 contracts continue on a year-to-year basis and we
15 can cancel them at any time.

16 MR. TUTEN: Well, now that we're on that
17 subject -- thank you for the segue, Beth.

18 When I first started on the trustee board,
19 the old consultant used to bring in the money
20 managers once a year and they'd sit in with us.
21 And I know special days where we set aside two
22 days, interview them all for a half our, an hour,
23 whatever it turned into.

24 And the upside of that was the fact that you
25 would actually learn things that you really

1 didn't know were going on just by talking to
2 people.

3 The last board before you guys got here kind
4 of went away from that and sort of delegated all
5 that authority to the consultant.

6 I prefer the old way. I prefer getting the
7 person that has a hundred million dollars of my
8 money and his money, all our money, and talking
9 to them. How are things going? Have you lost
10 anybody? Because these people don't volunteer
11 information. They're not going to send me an
12 email and say, Hey, by the way, our chief
13 investment officer just quit, but we're going to
14 find somebody just as good.

15 They don't do that. You only do that by
16 talking to them. So I would recommend, or would
17 like to see, at least, hear you guys' thoughts on
18 bringing these money managers back in, you know,
19 once a year, whenever you feel like it, two at a
20 time, every three months, whatever.

21 And, trust me, I know we're all busy, but
22 these are the people that control our money. And
23 I don't -- you know, Dan Holmes, I think, is a
24 great guy and I'm sure Summit Consulting is above
25 board in every way possible, but we're still

1 derelict in our duty as trustees by not talking
2 to these people ourselves.

3 We can delegate to the consultant to monitor
4 their performance, but at the same time, we
5 still -- I feel we need to talk to these people
6 one on one and just see exactly why they're doing
7 what they're -- especially with the market the
8 way it is, maybe they can shed some light on
9 maybe why their returns were either better or
10 worse or, unfortunately, much worse than some
11 other people.

12 Just a thought.

13 MR. PATSY: I think that's a good point. I
14 don't know if I like the idea of setting aside
15 two days.

16 MR. DARAGJATI: Most plans do it quarterly.

17 MR. SCHEU: At Columbia Seminary, they'll
18 have two investment managers come in at each
19 meeting, but they won't set aside two days. That
20 would be impossible.

21 And you don't have to do them every year,
22 but you schedule them out over a two-year period.
23 But you're right. It's important to do that.

24 MR. TUTEN: Yeah. Most of the time it's
25 truly, Look, give us an update on why you did

1 this, where you're going, who's doing what. Have
2 you lost people? Have you been sued? Yada,
3 yada.

4 But every now and then something would pop
5 up, like, Hey, what? And then you would be,
6 like, We're going to dig into that even further,
7 you know.

8 CHAIRMAN SCHMITT: And I certainly think we
9 should open that up to the investment advisory
10 committee.

11 MR. SCHEU: Absolutely.

12 CHAIRMAN SCHMITT: Have them get involved in
13 that process as well. I think it's a good idea.

14 MR. TUTEN: Yeah. I mean, we used to set up
15 just -- usually over two days, half of them come
16 in one day. It made for a long day. I don't
17 personally recommend it, but whatever you guys
18 want to set it up as, depending on their
19 schedule. I don't think it's too much to ask
20 somebody, you know.

21 MR. SCHEU: When you're billing by the
22 billable hours, some of us are, I propose to
23 spread it out rather than set aside two days.

24 I would also like to say that you may think
25 you're derelict in duty, but I think using words

1 like "derelict in duty" is not the right kind of
2 language. We may be able to improve our
3 performance, but we are not being derelict in our
4 duty.

5 That can be --

6 MR. TUTEN: Well, I understand what you're
7 saying. And this is not a new point for me, if
8 you go back and look through the whole pension
9 reform transcripts, I'm sure you'll see it many,
10 many times.

11 Once again -- and I brought this up back
12 when we delegated to the consultant interviewing
13 money managers. It states pretty clearly in the
14 statutes the Board, for better, for worse,
15 gentlemen -- and, Willard, you've still got a
16 chance to get out if you want to, buddy.

17 COUNCILMAN HAZOURI: I just told him that.

18 (Laughter)

19 MR. SCHEU: But the language, for the
20 public.

21 MR. TUTEN: I understand. I understand what
22 you're saying by the language, Bill. I do.

23 CHAIRMAN SCHMITT: Well, hopefully they take
24 it in context with many of his other comments.

25 MR. GREIVE: Once they come to know, Rich.

1 (Laughter)

2 MS. McCAGUE: I think your point is very
3 good and we will work on that. Our professional
4 investment advisor, we do rely on him and he is
5 the one who is -- and his team is responsible for
6 doing all that ground work on your behalf.

7 But there is nothing wrong with setting up a
8 schedule, just like you talked about, at Board
9 meetings to have a manager to come in so we can
10 get -- learn more directly from that.

11 CHAIRMAN SCHMITT: Back to the professional
12 service agreement.

13 Rich, your comment about for reasons other
14 than pure business reasons, I have that same
15 concern. I don't want this to turn into a
16 political process. I do think it's good business
17 practice to review all of our contracts with all
18 of our providers.

19 But I just -- that does worry me as well
20 that it turns into more of a political process or
21 a theme done for political -- or to appease the
22 public or whatever reason other than pure
23 business reasons. But I do think it's a good
24 policy.

25 MR. SCHEU: I move that we adopt it.

1 MR. TUTEN: Do we need to make a motion --

2 CHAIRMAN SCHMITT: And the motion is for
3 three years?

4 MR. SCHEU: Three years.

5 MR. TUTEN: Three?

6 CHAIRMAN SCHMITT: Three.

7 Do we have a second?

8 MR. PATSY: I'll second it.

9 CHAIRMAN SCHMITT: All in favor?

10 (Responses of "aye.")

11 CHAIRMAN SCHMITT: Opposed?

12 (No responses.)

13 CHAIRMAN SCHMITT: Passes.

14 MR. SCHEU: I've got a follow-up motion if
15 the chair will entertain it.

16 CHAIRMAN SCHMITT: Sure.

17 MR. SCHEU: And that is it's important that
18 the lawsuit is now being resolved, and I've
19 discussed it on numerous occasions with
20 Mr. Klausner. And you-all, before I came on the
21 Board, had started moving toward having the
22 General Counsel's Office do most all of the legal
23 work, having Mr. Klausner's firm do the -- more
24 limited to this pension-related work, which I
25 think is the way the charter imagines things.

1 So what that in mind, Bob and I have had
2 several conversations and he's perfectly all
3 right with this, and that is that I would move
4 that we ask the General Counsel's Office to
5 develop with us an RFP for specifically what we
6 need for pension-related legal services that the
7 General Counsel cannot provide; and that we put
8 an -- that we develop an RFP with the General
9 Counsel, and then we put that out as a request
10 for proposals.

11 And Bob is perfectly happy with that as long
12 as he can be one of the ones who can submit a
13 proposal, which he would, of course.

14 CHAIRMAN SCHMITT: Okay. So you're wanting
15 to go to OGC to ask them to develop an RFP for
16 legal services, other than what they can provide?

17 MR. SCHEU: Correct. Specifically,
18 pension-related services.

19 MR. PATSY: I assume that's in conjunction
20 with us.

21 MR. SCHEU: Oh, yeah, with us. Right. They
22 would do it with us.

23 CHAIRMAN SCHMITT: I don't know who else we
24 would go to to develop an RFP. And, again, we
25 obviously differ on this issue. I'm -- I don't

1 have the same comfort level with OGC that you
2 have. Not with the specific attorneys, just the
3 whole arrangement, as I mentioned before.

4 I think the arrangement is -- is
5 inappropriate and it has built-in inherent
6 conflicts that we just shouldn't be doing
7 business in that manner. You know, as much as
8 they try to separate the attorneys, they all work
9 in the same office.

10 In private industry you'd probably be
11 disbarred if you worked for a law firm where
12 another lawyer in that same law firm was
13 representing a client that you were suing. It's
14 not allowed.

15 MR. SCHEU: Well, the charter -- I just
16 believe in the charter. And the charter says
17 that General Counsel performs the legal duties of
18 the independent authorities unless there is a
19 specific need, and then the General Counsel, with
20 the particular authority, develops -- hires the
21 new counsel.

22 CHAIRMAN SCHMITT: Right.

23 MR. SCHEU: And so I think we are an
24 independent board of the city. The charter in 22
25 also says that this board has the right to employ

1 its counsel, but I think that derivative from
2 it's what we need other than what the General
3 Counsel can do.

4 So I just think -- and I respect your
5 disagreement, but this has been something that's
6 part of the pension reform that the task force
7 looked at and unanimously concluded that we
8 should do something like this.

9 CHAIRMAN SCHMITT: And I sat through those
10 meetings as well, and I think there wasn't enough
11 brought up on the opposite perspective or the
12 other side of the fence on all of that.

13 And I agree that the charter does say that
14 it is allowed and it does say in a separate
15 article that the independent boards can hire
16 their own attorneys.

17 Regardless of what it says you can do, I
18 just don't think it's proper to do it that way.

19 MR. TUTEN: Hadn't we already taken steps to
20 kind of go down this road anyway? I mean,
21 we've -- you know, I hate to say it, but you --
22 it's almost like putting the cart before the
23 horse. We don't really know if we need Paul or
24 Klausner most of the time until something comes
25 up where we say, Well, the General Counsel can't

1 really handle it. You know, this is not their
2 area of expertise.

3 So asking the General Counsel to write a
4 list of things that they can do pension-wise
5 almost seems like it's sort of --

6 MR. SCHEU: That's not what it's asking.
7 I'm saying to develop with us an RFP for what
8 pension-related services we do need. It's not
9 asking the General Counsel to say what they can't
10 provide. It's asking what we do need in case --

11 MR. TUTEN: But you're talking about
12 legally -- legal pension-related services?

13 MR. SCHEU: Correct. Legal counsel for
14 pension-related services.

15 CHAIRMAN SCHMITT: But, again, we're asking
16 the attorneys who have sued us to tell us what it
17 is they think we need for an attorney.

18 MR. SCHEU: Well, that's why it's important
19 to get the lawsuit settled.

20 CHAIRMAN SCHMITT: Well, this lawsuit.
21 There will be others.

22 MR. SCHEU: Well, I just think that this is
23 proceeding as the charter intends, and that's all
24 I can say. And I know that you disagree, but
25 that's -- I still -- I still love you.

1 CHAIRMAN SCHMITT: Yeah. Likewise.

2 MR. PATSY: Do I need to move?

3 CHAIRMAN SCHMITT: We love you too.

4 (Laughter)

5 MR. DURDEN: Mr. Chairman, may I add really
6 quick?

7 What I would say, there's -- I'm not
8 advocating that you do or don't go out for an
9 RFP. That's your call. But if you do go out for
10 an RFP, if that is your choice, the goal -- if
11 you us to -- ask the General Counsel's Office to
12 do the work, our goal is just like when we looked
13 for the RFP for executive director. You tell us
14 what you want. This is not for us to tell you
15 what you want.

16 The other choice of lawyers you have used is
17 us and Klausner. If you did go out for an RFP, I
18 don't think it would be appropriate for the
19 Klausner firm to write the RFP for outside
20 counsel and then apply.

21 CHAIRMAN SCHMITT: Agreed.

22 MR. SCHEU: Right.

23 MR. DURDEN: So this is just as a thought.
24 Those are just -- and I really -- I am not
25 advocating the RFP. That's not my role. I

1 don't -- it's none of my business whether you
2 guys would want to go out for the RFP. That's
3 your call.

4 We are there to assist you with the
5 contract. And, in fact, one of the things I will
6 look into, Councilman Hazouri reminded me that we
7 do have a procurement office. They may actually
8 work on that as well. I would have to look. I
9 don't do procurements, so I can't tell you.

10 But sometimes RFPs, even for professional
11 services, may be created Through procurement, so
12 it may not even be the law office nearly so much
13 as the procurement office. But I would have to
14 look into that, just so you know how some of the
15 possibilities are.

16 CHAIRMAN SCHMITT: I think -- the RFP is a
17 separate issue. I do think it would be
18 beneficial to us and to OGC to get a list or a
19 guideline of, these are the things -- when these
20 type things come up, we're going to OGC.

21 When these type things come up, we have a
22 choice. And we need to discuss it as a board:
23 Are we going to use OGC or are we going to go out
24 to an outside firm? I think that would be
25 beneficial to give that some clarity as to what

1 types of situations we would normal -- what is a
2 normal business item that we would go to OGC for,
3 and what is the type item that, Well, this one
4 gets pretty deep into the conflict, you know,
5 that we're involved in; we need to go to an
6 outside firm.

7 I think that would be very beneficial.

8 MR. SCHEU: I would be -- if you would like
9 me to amend the motion to do something like that,
10 if you want a committee to work on it, I'd be
11 happy to serve on that committee, and I think
12 that would move the ball down the field.

13 MR. TUTEN: Well, since we have our own
14 lawyer sitting at the end of the table -- hey,
15 Paul --

16 MR. McCAGUE: We've got two of them.

17 MR. SCHEU: We've got two of our own lawyers
18 sitting here.

19 MR. TUTEN: Two of them. I think this is
20 all kind of just overkill.

21 But, anyway, Paul -- and I don't how much
22 you guys would charge us, but could you guys or
23 do you guys have anything like that now where,
24 say, we're a perspective pension fund client and
25 you've got your crib sheet. Here's what we can

1 do for you, Mr. Pension Fund.

2 Do you-all have that sort of document or
3 could you produce something? In other words, I
4 think this is over-complicating things myself.
5 But --

6 MR. SCHEU: Bob sent me a form of RFP that
7 they've used for other pension funds.

8 MR. TUTEN: In other words, just so we can
9 get a grasp on the topics that you cover, that
10 you -- not only for us, but New Orleans, Alaska,
11 all the rest of them.

12 So that way we can kind of sort of, whatever
13 we come up with over here, we can sort of look at
14 it -- you know, you're not recommending anything.
15 We know that. I just want a list of services
16 that are typical for pension funds that you guys
17 deal with.

18 MR. DARAGJATI: Absolutely. We've responded
19 to requests for proposals. We do it all the
20 time. And we would be happy to provide the Board
21 with the requests for proposals that we respond
22 to so you can use that as a template in guiding
23 you in this endeavor.

24 Look, any contract, I mean, you have with us
25 is aspirational, because you could fire us at any

1 time. I mean, that's just a matter of being part
2 of the Florida Bar. There's no attorney that can
3 enter into a contract that's binding with any
4 client.

5 But we have no problem providing a
6 description of services that we provide to the
7 Board, and that might help guide the project that
8 you're on now as far as what the General Counsel
9 can do for you versus what we can do for you.

10 MR. PATSY: Just to pile on here. I've
11 worked with both models, external to board --
12 (inaudible). With the city plan we had OGC
13 representation at all the meetings just like
14 Klausner comes to all these meetings.

15 One of the other boards I sit on, we don't
16 have a staff attorney. It's all outside counsel.
17 They both work, okay?

18 I think that there can be some positives in
19 going through this process, because it appears as
20 though there's been a strained relationship with
21 OGC in the past as far as the Board and OGC.

22 So possibly in that process we can build
23 some bridges and develop a better relationship
24 going forward.

25 My experience with OGC is they will give you

1 their opinion. You don't have to agree with it.
2 And my experience with the city's board, there
3 are many times we didn't agree with it. And some
4 of those instances we went out to Klausner's firm
5 to get, you know, outside counsel opinion.

6 So, you know, to sum it up, they both work.
7 It's just a function of which one are we going to
8 be comfortable with.

9 Having the changes that the plan has gone
10 through with the new legislation, I think some of
11 the conflict issues or conflicting issues are
12 probably off the table now.

13 So I would support Bill's motion.

14 MR. TUTEN: I agree with you, Rick. I mean,
15 that's kind of my whole -- there's never been a
16 point on any of the boards that I've sat on that
17 we've sat around and said, You know what; we're
18 going to go strictly with Klausner no matter
19 what. I mean, there's never been a conscious
20 decision. It's just a simple matter of this is
21 the topic that's come up. This is outside of the
22 OGC's realm of expertise.

23 It's never been a formal type of act. You
24 know, we've never really -- because things like
25 that just tend to work themselves out. That's

1 why I just think it's sort of -- I think we're
2 creating more layers of stuff to do with a
3 seven -- how many people down there now, seven?

4 MS. McCAGUE: Six.

5 MR. TUTEN: Seven-member pension office that
6 we just -- it's just -- and I do -- not on your
7 part, Bill. I don't. I don't really believe
8 this has anything to do with politics with you,
9 but there is an overtly political aspect to this
10 and it came about simply because, during pension
11 reform and all the lawsuits and all the money
12 that we were having to pay out to Mr. Klausner to
13 defend us, that all of a sudden, you know, he
14 became, right behind John Keane, target number
15 two, which, you know, going before that and
16 after, nobody even cared. And I just -- I don't
17 want it to turn into that.

18 MR. SCHEU: But that's why the fees got out
19 of hand, is those public record suits. And --
20 well, it's not political, but it is important for
21 transparency to say we've really looked at what
22 we need, and going forward -- I mean, you-all
23 have already started it because you've shifted
24 over to the General Counsel the public records
25 requests and all that, which is good.

1 And this is just letting the public know
2 that you've really done your duty and examined
3 what you need going forward. I mean, we're in a
4 big transition here. And it's all about
5 rebuilding trust, I think. Like it or not.
6 That's the way it is.

7 MR. TUTEN: Well -- never mind. I will bite
8 my fireman tongue right now.

9 Continue on, Chairman.

10 CHAIRMAN SCHMITT: Thank you.

11 All right. So your motion is -- you want to
12 change the motion to create a list of
13 standardized items that OGC would handle and a
14 standardized list of items that we would
15 generally seek outside counsel to handle.

16 MR. SCHEU: I think that would be part of
17 it, that you establish a committee to work with
18 the General Counsel, Beth, or staff here to
19 develop a policy for covering the general
20 representation by the General Counsel and when it
21 would be appropriate for us to seek special
22 counsel, something like that.

23 CHAIRMAN SCHMITT: I think that's a good
24 committee for you to head up, if you will take
25 the lead on that.

1 MR. SCHEU: Thank you.

2 MR. TUTEN: Second.

3 CHAIRMAN SCHMITT: I mean, I don't think we
4 need a motion to do the committee.

5 MR. SCHEU: Okay. That's fine. Whatever.
6 Sure.

7 MR. TUTEN: Beth is on it. Our director is
8 on it.

9 MS. McCAGUE: I'll be on it.

10 CHAIRMAN SCHMITT: Beth is on it. All
11 right. Do we need more or do you want to go with
12 that for now?

13 MR. SCHEU: As long as we're comitted to it,
14 that's fine.

15 CHAIRMAN SCHMITT: I think it's a worthy
16 cause.

17 All right. So the next item,
18 2015-10-1SM(c), John's transition consulting
19 Agreement, the main change in there is in item
20 Number 9, is extending this -- currently it
21 expires January 31, the current agreement.

22 This would extent it for nine weeks through
23 the end of March 31, 2016, at the same rate of
24 \$130 per hour, with 24 hours average weekly in
25 each of those nine weeks. That's this version of

1 the consulting agreement extension.

2 We have discussion on that.

3 MR. PATSY: What was it previously?

4 CHAIRMAN SCHMITT: The time frame?

5 MR. PATSY: Yes.

6 CHAIRMAN SCHMITT: It expires January 31.

7 MR. PATSY: Oh, so we have to do a new
8 contract?

9 CHAIRMAN SCHMITT: Or not. I mean, those
10 are our choices.

11 MR. SCHEU: We need to get a motion on the
12 floor. I've got an amendment to make.

13 CHAIRMAN SCHMITT: Okay. So --

14 MR. TUTEN: The gist of this, we're going to
15 extent John's contract to the end of March,
16 basically. Is that what we're doing?

17 CHAIRMAN SCHMITT: Right.

18 MR. PATSY: So if it expires at the end of
19 January 31, the consequences are John goes away?

20 CHAIRMAN SCHMITT: Correct.

21 MR. PATSY: What are the consequence of
22 that?

23 MR. GREIVE: Beth continues to swim solo --
24 or would swim solo at that point.

25 CHAIRMAN SCHMITT: I mean, the whole reason

1 behind the consulting agreement is to have him
2 available as the issues come up, historical
3 information, questions about certain ways to
4 process items that come up, just like on the
5 General Employees Pension Plan, the director
6 there is in charge of all that.

7 Obviously we have an interim director who is
8 doing a great job, but some of those things she
9 hasn't seen before. And to have -- the point of
10 the consulting agreement is to have availability
11 to John to answer those questions and to take on
12 projects that are assigned to him by the
13 executive director.

14 MS. McCAGUE: But to answer your question,
15 first of all, I'll say John has been extremely
16 helpful over the last 60 days since I've been
17 here, especially as it relates to issues of
18 requests coming from City Hall about past records
19 and past agreements and so forth, because we can
20 find the documents, but we need to go where to
21 look and he has a lot of that information.

22 On the other hand, when I was here with you
23 in November and talked to you about taking on the
24 job as interim director, I said I would be
25 interim director and that we wouldn't have two.

1 We've had 60 days of transaction and I think
2 another -- you know, working through February is
3 great. But from an organizational standpoint,
4 what we're trying to do here, what I'm trying to
5 do here is get us in the best business practices
6 going forward.

7 And in the typical world, a transition
8 period, even for someone who's been around for a
9 long time, maybe two to four weeks. We've had
10 John in transition with me since the first of
11 December. And so I think if we -- if you allowed
12 him to help through the end of February, that
13 should be fine.

14 That's not to say we won't make a mistake or
15 have a problem. We might. But we might do that
16 anyway.

17 What would be very important, if he would
18 agree to do it, would be to stay on call, not
19 just for me, but for the future permanent
20 director who comes in. But that's different than
21 being in the office during the week.

22 MR. PATSY: Okay. So you're effectively
23 recommending the change to this agreement from an
24 end date of March 31 to February 29.

25 MS. McCAGUE: My recommendation is a 90-day

1 transition period should be plenty.

2 MR. PATSY: Okay.

3 MR. SCHEU: And that was going to be what I
4 was going to -- but I've got -- hearing the
5 conversation, I've got another thing I'll just
6 put on the table.

7 We've got a minimum of 24 hours average. I
8 think it really ought to be consistent with what
9 Beth has just said. He should be here when she
10 needs him for a specific task, but he shouldn't
11 be sitting here for 24 -- whatever it is,
12 24-hours a week because that makes it seem like
13 he's an employee and he's really not.

14 So it's really a consulting service for when
15 the executive director determines that she needs
16 his advice.

17 So I would like to take Number 9, modify
18 that, to just say an on hourly basis as needed
19 by -- as determined by the interim executive
20 director and make the change February 29 also.

21 I think that's the kind of transaction that
22 we need now. I may be wrong. Is that
23 appropriate, do you think, Beth?

24 MS. McCAGUE: Actually, I think it's -- I
25 think it's very appropriate, but it's fine to

1 have -- to allow him -- to ask him to be in the
2 office 24 hours a week. I think that's fine.
3 Because a lot of what he is doing is going
4 through his paperwork and so forth, you know.
5 He's just doing that and trying to organize it
6 and determine what he needs to tell me.

7 But after February, I think it should be on
8 an as-needed basis.

9 MR. SCHEU: Well, if we changed it to be as
10 determined by the interim executive director, you
11 could determine whether he needed to be here 24
12 hours during any particular week. If you felt
13 like he did, you would have that authority.

14 MR. McCAGUE: Right. Okay.

15 MR. SCHEU: Instead of just making it a
16 mandatory 24 hours, is the way I see it.

17 MR. McCAGUE: Okay.

18 MR. SCHEU: So I -- well, you don't have a
19 motion on the floor, but if there were one, I
20 would move those amendments.

21 CHAIRMAN SCHMITT: Okay. Well, let's get a
22 motion on the floor regarding the extension of
23 the contract, and then we will go through
24 amendments to the contract.

25 So the motion is to extend the contract.

1 This one is written through March 31, 2016. So
2 if somebody wants to make that motion, then we
3 will go through the amendments.

4 MR. TUTEN: Make the motion as it is right
5 here?

6 CHAIRMAN SCHMITT: Correct.

7 MR. TUTEN: Yeah. I'll make a motion we
8 accept it.

9 CHAIRMAN SCHMITT: Okay. So the motion is
10 on the floor, contract as is, extension through
11 March 31, 2016.

12 MR. SCHEU: And you will need a second,
13 which for purposes of getting on the floor, I'll
14 do that.

15 CHAIRMAN SCHMITT: Okay. So we have a
16 second. So now we can --

17 MR. SCHEU: I'll just move in one amendment,
18 that we change the date to February 29, change
19 paragraph 9, the concept being -- and we could
20 work out the language -- that it would be -- we
21 would remove the 24-hour average weekly.

22 We would just say as determined by the
23 interim executive director, on the basis of \$130
24 an hour.

25 MR. TUTEN: Well, as far as that goes, and I

1 haven't talked to John about it, but I think that
2 might have something to do as far as here then,
3 because it's still a contract, but we're all
4 assuming John is going to take it.

5 MR. SCHEU: Absolutely. Yeah. We --

6 MR. TUTEN: You know, if the 24 hours -- I
7 don't know if that's a condition of sticking
8 around. I don't know, you know. I mean, I guess
9 we can vote this, pass it, and then decide if he
10 wants to take it, I guess.

11 MR. SCHEU: And if he doesn't want to take
12 it, it ends January 31.

13 CHAIRMAN SCHMITT: And your motion, on an
14 as-needed basis, still with a cap of 24 hours.

15 MR. SCHEU: With a maximum of 24 hours.

16 CHAIRMAN SCHMITT: Right.

17 MR. SCHEU: But not a minimum.

18 CHAIRMAN SCHMITT: Right.

19 MR. SCHEU: Yeah. As determined by the
20 interim executive director.

21 CHAIRMAN SCHMITT: So the motion is to
22 change the date of the contract in section Number
23 9 to end February 29, 2016, and instead of 24
24 hours per week, it's on an as-needed hourly basis
25 as determined by the interim executive director

1 with a cap or a maximum number of hours at 24
2 hours any given week.

3 MR. SCHEU: You would also need to change
4 paragraph 14 too.

5 CHAIRMAN SCHMITT: Change paragraph 14 from
6 March 31 to February 29, 2016. That's the
7 motion. Do we have a second?

8 MR. PATSY: I second.

9 CHAIRMAN SCHMITT: So on the amendment, we
10 have a motion, we have a second. Any further
11 discussion?

12 (No responses.)

13 CHAIRMAN SCHMITT: All in favor?

14 (Responses of "aye.")

15 CHAIRMAN SCHMITT: Opposed?

16 (No responses.)

17 CHAIRMAN SCHMITT: None opposed. Those
18 changes -- the amendment passed to the changes in
19 the contract.

20 MR. SCHEU: Thank you.

21 CHAIRMAN SCHMITT: We'll take another
22 five-minute break. Let's keep it to five
23 minutes. It's 10:59 right now.

24 (A break was taken; thereafter, the Board
25 meeting continued as follows:)

1 CHAIRMAN SCHMITT: Back into session here.

2 We handled the first item under Legal. We
3 have -- next item 2015-9-7, Update of securities
4 litigation matters. Paul Daragjati is here to
5 present one item, give us an update.

6 MR. DARAGJATI: Sure. One -- well, actually
7 two items, but one is very brief and you'll
8 figure out why when I talk about it.

9 NII Holdings is a case that the fund is lead
10 plaintiff for. It just settled, but,
11 unfortunately, I can't describe to you the nature
12 of the settlement because the court has issued an
13 order prohibiting the parties from describing the
14 settlement until all of the documents become part
15 of the record.

16 The court is concerned that the settlement
17 what have an adverse effect on the stock price of
18 that particular equity and there would be insider
19 trading going on.

20 But I can tell the Board that the number
21 that the Board authorized the attorneys to settle
22 for was exceeded. We got a better settlement
23 than what the Board hoped for. So that was a
24 good settlement.

25 CHAIRMAN SCHMITT: And just the background

1 on that one. It came up a year ago --

2 MR. DARAGJATI: That was about a year ago.
3 NII Holdings owns South American
4 telecommunication lines, that type of business.
5 And they gave incorrect data to the market
6 based -- as far as the robustness of their lines
7 and of their facilities, and it caused a downturn
8 in their stock price.

9 CHAIRMAN SCHMITT: Okay. And then there's
10 security litigation. And I'm just trying to work
11 through the process as an overview.

12 Security litigation lawsuit is settled -- or
13 is filed. A judge determines what attorneys or
14 what plaintiffs are allowed to be in the lead for
15 this?

16 MR. DARAGJATI: Generally what happens is,
17 with the security litigation lawsuits, several
18 years back congress passed a law that prohibited
19 small owners of stocks from initiating securities
20 litigation lawsuits.

21 As it stands how, pension funds are the main
22 plaintiffs generally in these lawsuits. And
23 these lawsuits are normally brought when a board
24 of directors of a corporation or the executives
25 in a corporation issues false statements which

1 causes to market to rely upon, and it grows the
2 stock price fraudulently.

3 When the truth comes out, the stock market
4 reacts as you would expect and the stock price
5 falls, causing a drop and a loss to large
6 shareholders. And, generally speaking, large
7 shareholders tend to be pension funds.

8 This pension fund, like most others, have
9 large holdings in various different companies.
10 What has happened in the past and what continues
11 to happen is that we have a monitoring law firm,
12 Bernstein and Litowitz, that assists us in
13 initiating these actions whenever the fund takes
14 a loss on these securities based upon fraud on
15 the market theory, is what the theory is.

16 They're generally initiated from class
17 actions because there could be thousands upon
18 thousands of shareholders of a particular
19 security.

20 The judge looks at the owners of the
21 securities. Generally speaking, the courts want
22 to see a large shareholder and represented by
23 experienced counsel. Bernstein Litowitz is a --
24 is one of the firms that we work with. They're
25 based in New York, and their main role -- like

1 our firm does pension board representation, they
2 do securities litigation.

3 So when a suit is initiated, the court has
4 to decide who the lead plaintiff is going to be,
5 and being lead plaintiff does not bring anything
6 extra for the lead plaintiff in terms of a
7 settlement.

8 But what it does, it gives the lead
9 plaintiff control over what a case is settled for
10 and who is going to be representing the class.

11 And that's important because in a lot of
12 these situations, there are -- just like any
13 other profession, we have good attorneys, we have
14 bad attorneys. You don't want to be represented
15 by a group of attorneys that's going to settle
16 easily and bring less to the table for the
17 shareholders.

18 CHAIRMAN SCHMITT: And in our situation,
19 when we decide to vote as a board to be a lead
20 plaintiff, we don't encumber any expense. We
21 only recover if there is money that's awarded by
22 the court.

23 MR. DARAGJATI: That is correct.

24 What happens is, the firm, like any other
25 firm that takes on a case on a contingency, pays

1 for all of the costs of litigation, including any
2 of the costs that the -- for example, this
3 organization would have to pay individuals to
4 gather documents. They would reimburse the fund
5 for the cost of that employee's work to gather
6 those documents.

7 And what happens is generally the law firm
8 will take 25 cents on the dollar from the class
9 settlement. So whatever the settlement is, the
10 law firm, for taking on the risks -- and, bluntly
11 speaking, these cases get very expensive because
12 they are so large. It's not uncommon for one of
13 these cases to cost these law firms several
14 hundred to close to a million dollars to
15 prosecute over several years.

16 So they're taking on that risk, and in
17 exchange they take 25 percent of the class
18 settlement.

19 CHAIRMAN SCHMITT: And if there is no
20 settlement, no funds are awarded. The law firms
21 just basically eat that.

22 MR. DARAGJATI: They take the loss.
23 Correct.

24 MR. SCHEU: This -- you had your hand up
25 first.

1 MR. PATSY: No, go ahead.

2 MR. SCHEU: This came up in the subpoenas
3 that Devin and I went over to respond to. You
4 know, we had a subpoena from the City Council and
5 so did Mr. Klausner. The one for Mr. Klausner
6 related to the fees he had received as counsel to
7 the lead plaintiff for the class.

8 And it was obvious from the questions that I
9 don't the City Council -- surprise -- really
10 understood. Let's say in one case Klausner's
11 firm as part -- and the judge awards the fees.
12 It's not automatic.

13 MR. DARAGJATI: That's true.

14 MR. SCHEU: Somewhere between 20 and 25
15 percent. I'm no big fan of these lawsuits, but
16 they're there.

17 So Klausner, as part of the counsel group
18 representing the whole class as lead plaintiff,
19 participated in the field work. He usually would
20 get about, as I recall what he told me, 2 percent
21 of the 25 percent, something like that.

22 So let's say that was a million dollars.
23 That's unusual, but he did in one case receive a
24 million or two million dollars. That's not
25 something that offsets our award. That relates

1 to the overall award of the class.

2 And our -- since that's only 2 percent of
3 the award, what the fund receives that's
4 allocated to it from the judgment is always going
5 to be more than what Klausner receives because of
6 the percentages.

7 We would have 75 percent of whatever that
8 is, let's say, if we were the -- we would
9 participate in our percentage of the whole award
10 and he would then participate in the fees for the
11 whole award. But we're always mathematically
12 going to be receiving -- it's always going to be
13 to our advantage dollar-wise.

14 CHAIRMAN SCHMITT: Proportionately, when the
15 judge makes the award to the plaintiffs, let's
16 say the total is a million dollars. The judge
17 will say 75 percent of that is going to the
18 investors --

19 MR. SCHEU: The class, right.

20 CHAIRMAN SCHMITT: -- that would be us, the
21 class, 25 percent of that is going to the
22 attorneys, and of that 25 percent going to the
23 attorneys, this attorney gets this amount, this
24 attorney gets this amount.

25 So proportionately, as the plaintiff, we

1 would always receive more than what the attorneys
2 as a whole would receive.

3 MR. SCHEU: And while it looks like it's a
4 lot of money, it's really -- it's always to our
5 benefit to be a member of the class.

6 MR. PATSY: Let me give you this example.

7 If the settlement is hundred dollars, if I
8 understand this correctly, \$25 goes to the law
9 firms --

10 MR. SCHEU: The aggregate law firms. Yeah.

11 MR. PATSY: Right. And then law 75 gets
12 divided amongst all the class --

13 CHAIRMAN SCHMITT: Correct.

14 MR. PATSY: -- investors. So if there's a
15 hundred investors, the law firm gets \$25 and each
16 investor gets 75 cents.

17 CHAIRMAN SCHMITT: Right. But if there were
18 a hundred law firms, each of them would get a
19 dollar.

20 MR. PATSY: With what?

21 CHAIRMAN SCHMITT: So if there were 25
22 attorneys, each of them would get a dollar.

23 MR. PATSY: Right. Okay. But still it
24 seems like the lion's share is going towards the
25 law firms as opposed to -- percentage-wise, to

1 the investors.

2 CHAIRMAN SCHMITT: Right. Because there are
3 so many investors.

4 MR. SCHEU: Right, right.

5 MR. McCAGUE: And fewer attorneys.

6 MR. PATSY: I don't want to go down that
7 rabbit hole, but when I look at this, this claims
8 All America, do we still own those shares?

9 MS. McCAGUE: Yes.

10 CHAIRMAN SCHMITT: That's the next one
11 coming up. This -- this was a recap of the one
12 that just settled.

13 MR. PATSY: Oh, okay.

14 CHAIRMAN SCHMITT: This one just settled.
15 We don't know the exact amount --

16 MR. PATSY: Okay. I got you. I'm sorry.

17 CHAIRMAN SCHMITT: No, that's all right. We
18 don't know the exact amount yet because the judge
19 has not released that.

20 MR. DARAGJATI: It issued an order to the
21 parties not to talk about it. A gag order, I
22 guess I would call it.

23 CHAIRMAN SCHMITT: So whatever the initial
24 amount was that the attorneys were authorized to
25 settle, whatever that dollar amount was, it

1 actually settled for higher than that.

2 MR. PATSY: Okay.

3 MR. SCHEU: But you're right in terms of --
4 that's why business people are not generally in
5 favor of these. But we're always -- since we're
6 only paying whatever that 1 percent is of the 2
7 percent that they get -- because that's for the
8 whole class. We're not -- his \$25 is not
9 offsetting our 75 cents. Their \$25 -- our
10 percentage -- our 1 percent of that 25 is much
11 less than the 1 percent that we get.

12 CHAIRMAN SCHMITT: I guess another way to
13 look at it is, let's say there's 75 investors.
14 Each of those investors paid a portion to the
15 attorney.

16 MR. SCHEU: Correct.

17 MS. McCAGUE: If I may say, you may ask,
18 well, what does this mean to us? So Northern
19 Trust, our custodian, has provided information
20 about claims filed and paid and then total
21 amounts since 2008 for the fund. So we've been a
22 part, not a lead, but a part of over 400 claims
23 filed.

24 Of those amounts, just over 200 have had
25 some pay event, and our share, going back into

1 the fund, is a little over a million two from all
2 those cases that we've been involved in.

3 CHAIRMAN SCHMITT: Going back to 2008, did
4 you say?

5 MR. McCAGUE: Since 2008, right.

6 MR. SCHEU: And that hadn't cost us anything
7 to do.

8 MR. McCAGUE: Correct. We're recovering
9 losses. Now, did it cover all our losses? I
10 can't say, but had we not been a party to the
11 suit, then we would have not have recovered this.

12 MR. DARAGJATI: And that's the point I was
13 going to make. Trustee Patsy raises a valid
14 question that is raised on a regular basis.

15 Why is it that there are times when the
16 attorneys will earn more than the individual
17 plaintiffs in the pool?

18 The better way of looking it at is if the
19 attorneys didn't take the risk in bringing the
20 suit, the individuals in the pool would not have
21 recovered anything. Nothing.

22 So any -- any funds that are recovered by
23 the individual plaintiffs is basically free
24 money.

25 MR. SCHEU: Right.

1 MR. PATSY: The way I look at this, if we
2 still own shares in a company that we're suing as
3 part of the class action, as a shareholder, we're
4 owners. So fundamentally we're suing ourselves.
5 We are the only investors, and our goal is the
6 appreciation in our stock holdings.

7 If the company does well and that -- their
8 share appreciates, we benefit much more so than
9 what we're benefiting from these class actions
10 lawsuit.

11 If we said -- had 200 settlements out of the
12 400 and we earned 1.3 mill?

13 MS. McCAGUE: Just over 1.2.

14 MR. PATSY: That's not a real big payout
15 for, you know, securities litigation.

16 So fundamentally, I guess, philosophically
17 I'm opposed to it. And I have a real hard time
18 suing the company that we're -- you know, we have
19 a share of ownership in.

20 MS. McCAGUE: And my understanding is we
21 still own those shares through two of our MLPs,
22 Harvest and Tortoise.

23 CHAIRMAN SCHMITT: And I agree with you,
24 from a business perspective, it's hard to justify
25 suing a company that you still own. But I look

1 at it a little bit differently. We're suing to
2 recover damages that were incurred -- that we
3 incurred as a result of something their board
4 did.

5 If we don't, the lawsuit is still going
6 forward. Somebody is going to collect that
7 money, and a portion of that money they're going
8 to collect rightfully belongs to our members.
9 That's my approach on it.

10 MR. PATSY: Passively participating in class
11 action, I tend to agree with you, that the suit
12 is going to happen, we ought to get our portion
13 of it.

14 I just -- when we take the lead plaintiff
15 role, to me that escalates it. And I agree in my
16 mind it's splitting hairs. You know, what's the
17 difference whether you're participating as a
18 member of the class or as a lead plaintiff? I
19 still have a hard time with it.

20 MR. TUTEN: Well, I understand. It's funny
21 you say that because that's where Barbara Jaffe
22 used to sit. She used to be just like you.

23 She was very -- she leaned heavy on the, why
24 are we suing? Do we really need to do this?
25 It's more of a negative than a positive.

1 I'm kind of like where Larry is. To a
2 certain extent it's -- everybody thinks there's
3 too many lawyers and I happen to agree.

4 MR. SCHEU: So do I.

5 MR. DARAGJATI: I agree too.

6 MR. TUTEN: But in this particular case --
7 nothing personal, Paul.

8 But it's like the chairman said, most of our
9 cases like Enron, Tyco, all these other places,
10 you know, these are people that still have
11 money -- these are people that -- like you said,
12 damages.

13 These are people that deserve to be sued.
14 It's going to go ahead anyway. It doesn't cost
15 us anything to join in on the party. You know,
16 all the money that they earn is not necessarily
17 coming out of our pocketbook because it's part of
18 the settlement.

19 And I think the judge pretty much settles
20 all the fees for the most part most of the time.
21 So it's not like -- we would get nothing as
22 opposed to something if we did it.

23 Now, are we going after companies that may
24 or may not deserve to be sued? I don't know per
25 se because I haven't reviewed each and every, but

1 most of the time when they bring us something,
2 it's pretty obvious. It's pretty egregious in
3 nature what these companies have done.

4 You know, it's not just a group of lawyers
5 getting together and saying, Let's go after them;
6 I think stock fell 2 cents on one day and they
7 could have sold it for higher or something.

8 I understand your point. Believe me, we've
9 had lots -- with Bob sitting right there instead
10 of poor Paul, but I think in our cases it can be
11 pretty well shown that they're pretty justifiable
12 in going after these people.

13 MR. DARAGJATI: Philosophically, if you
14 think about how these suits come to fruition, the
15 executives of that company make a representative
16 to the market that the company is in position X
17 when they knew it was a lie, and based upon that
18 representation you purchased the stock.

19 The lie comes out. You take a loss. I
20 think it's good corporate ownership to force them
21 to reimburse you for the profit they made on the
22 lie. I mean, that's -- maybe I'm thinking like a
23 lawyer, but that's -- that's how I see it.

24 MR. PATSY: We're an owner. You know,
25 that's -- you're taking money out of your own

1 pocket and we're saying that's a good thing.

2 That -- I have a hard time with that.

3 CHAIRMAN SCHMITT: Yeah. I'm not saying
4 that's a good thing. I'm saying our company that
5 we own told lies, and as a result of those lies,
6 caused our members, who we're the trustees for,
7 not -- we're shareholders --

8 MR. PATSY: I understand.

9 CHAIRMAN SCHMITT: -- but we're trustees for
10 the members. Our members suffered a loss as a
11 result of their intentional acts, and we have a
12 responsibility, I believe, to recover as much as
13 we can from them for that act.

14 MS. McCAGUE: And it may be helpful, on this
15 particular case, the Plains All American, the
16 previous Board authorized lead position as a
17 plaintiff.

18 And do you want to explain why we're
19 discussing this again?

20 MR. DARAGJATI: Sure, sure.

21 Reader's Digest version of what is the
22 history on this. Plains All American is a
23 company that manufactures and maintains oil
24 pipelines. They made representations regarding
25 the safety and the -- the robustness of their

1 pipelines.

2 Last year there was an incident in Santa
3 Barbara where a lot of oil was spilled into the
4 bay. The truth came out that the representations
5 they made in their stock offerings -- and this
6 goes to -- I'll explain in a second why we're
7 here -- were false.

8 We didn't own -- I should say we own parts
9 of two secondary offerings. Initially this was
10 brought to us last year. We got together with
11 the Rhode Island Pension System and a couple of
12 pension systems in Louisiana to attempt to be
13 class representative.

14 But the International Machinists Union
15 Pension, which took much more serious losses and
16 much bigger investment in the company, also
17 asserted the ability to be class representative.

18 After looking at the facts, Bernstein
19 Litowitz recommended to the Board that we not try
20 and prosecute the ability to be class
21 representative. So we withdrew from that.

22 During discovery it came to light that the
23 International Machinists Union, the class
24 representative right now, does not own the two
25 secondary offerings that we own. Under the

1 standing issues that are involved, they can't
2 assert rights for us.

3 This funds spent one point -- I think it was
4 1.3 or \$1.6 million total in purchasing their
5 stock over these two secondary offerings. The
6 only other fund that -- within the universe that
7 can assert a claim based upon those two offerings
8 is Detroit. They may not do it.

9 But the problem is if we don't -- if this
10 Board doesn't assert an ability to be the lead
11 plaintiff on those two secondary offerings and
12 Detroit does, they still didn't take part in the
13 first offering. So that would be \$400,000 that
14 the fund lost and that's incapable of being
15 recovered.

16 So what -- what I'm recommending to the
17 Board is that the Board allow us or allow the
18 attorneys that are representing this Board,
19 Bernstein Litowitz, to assert a claim to be lead
20 plaintiff on these two secondary offerings.

21 MR. SCHEU: This is one reason that I think
22 this scope of work is important because it's
23 really the philosophical issue, do we want, as a
24 policy, to be lead plaintiffs as opposed to
25 having a policy just to file the claim in the

1 class itself.

2 And so I think that's why that's important,
3 because when we do an RFP, is that the kind of
4 service we would want, which then begs the
5 question -- because it's our counsel that
6 participates in the group of counsel -- what does
7 your firm do, or is it more in the nature of a
8 referral fee?

9 MR. DARAGJATI: No. We actually take part
10 to a certain extent in the litigation. There is
11 no document that's filed. For example, the
12 complaint. We review the complaint. We make
13 sure that it's legally sufficient, that it
14 comports to all the facts that are presented to
15 us as far as ownership of the particular equity.

16 We take part in depositions. We go to
17 depositions with employees of the fund, because
18 if we're lead plaintiff, the administrator of the
19 fund is going to be deposed.

20 MR. SCHEU: But you don't go to -- you don't
21 take the depositions of other people? That would
22 be Berkowitz -- or whatever that name is.

23 MR. DARAGJATI: Bernstein Litowitz takes,
24 but we do travel to those depositions as well and
25 sit as side counsel. If there's something that

1 comes up, we whisper in their ear, for want of a
2 better term, and bring it to their attention.

3 MR. SCHEU: Because the truth of the matter
4 is, this is a lucrative practice.

5 CHAIRMAN SCHMITT: Yeah.

6 MR. SCHEU: And so the issue for us is --
7 and I talked to Bob about this too. He charges
8 us, I think he said, \$245 an hour. His hourly
9 rate is probably much more than that.

10 But he gets to charge his public clients
11 less because of the opportunity to make it up on
12 this side of the table.

13 Now, whether we want to permit our counsel
14 to do that, that's a philosophical issue, because
15 it's really to his benefit, as you already
16 observed, more than it's to our benefit because
17 we could just file a claim and we would still get
18 that million dollars.

19 MS. MCCAGUE: Right. So our securities
20 litigation policy as it exists right now would
21 say that since there are losses and this
22 investment was over a hundred thousand dollars,
23 this would be a case that we would say we would
24 be lead plaintiff position.

25 But if the Board wants to consider changing

1 that policy -- you may want to do that today or
2 we may want to take that up under separate
3 issue -- on a go-forward basis, do we want a
4 different policy than we have today?

5 MR. SCHEU: That could be part of this
6 review, it would seem to me, as it relates to
7 legal services. But that being the policy, we
8 probably ought to go ahead and do this today.

9 MR. DARAGJATI: Just for the record, at the
10 close of business today is the deadline for
11 filing the motion for lead plaintiff in those two
12 secondary offerings.

13 MR. GREIVE: And, Paul, if the Board does
14 not take lead or assert that they would like to
15 take lead, you're saying that those two secondary
16 offerings would go unchallenged and not be a part
17 of the more broad class action lawsuit?

18 MR. DARAGJATI: That's correct.

19 MR. GREIVE: That's interesting. So nobody
20 else -- if we don't do it, no one else will do it
21 is what you're saying?

22 MR. DARAGJATI: No one has -- it's a very
23 small universe of attorneys that do this work,
24 and no one has come to the attention that -- I
25 mean, today is the last day for that motion to be

1 filed and no one has done it.

2 MS. McCAGUE: And Detroit may or may not.

3 MR. DARAGJATI: May or may not. May or may
4 not.

5 CHAIRMAN SCHMITT: Or one of the two.

6 MR. DARAGJATI: Or one of the two. For the
7 Initial Public Offering, which was offered on a
8 secondary market, which Jacksonville Police and
9 Fire Pension Fund bought shares in, they didn't
10 take part in that. So that would be \$400,000
11 that this fund will absolutely not be able to
12 recover, even as -- even as a secondary class.

13 CHAIRMAN SCHMITT: Just as a member.

14 MR. DARAGJATI: Member. Yeah.

15 MR. SCHEU: Well, based on that, I think
16 I'll move that we participate or authorize them
17 to file in this, but I do think we need to
18 revisit the whole policy.

19 CHAIRMAN SCHMITT: Yeah. And we may
20 actually have to have another -- a workshop just
21 for that, to review that and determine what -- if
22 we want to remain with our current policy or make
23 changes to it. Obviously there's some different
24 views on it.

25 MR. DARAGJATI: And it would probably be

1 helpful, in the same way that you would bring in
2 money managers to discuss their processes with
3 the Board, to bring in outside shareholder
4 litigation counsel to come in and discuss their
5 processes.

6 MS. McCAGUE: Right. And, also, our
7 custodian, Northern Trust. I mean, they have a
8 whole line of business that deals with this and
9 they'd be happy to have that person come and
10 discuss this with the Board.

11 MR. PATSY: Sure.

12 MR. SCHEU: Sure. That'd be good.

13 CHAIRMAN SCHMITT: So the motion is to
14 authorize for the Police and Fire Pension Fund to
15 take lead on these two --

16 MR. DARAGJATI: On the Plains All American
17 Pipeline litigation regarding the secondary
18 offerings.

19 CHAIRMAN SCHMITT: Do we have a second?

20 MR. TUTEN: Nothing.

21 CHAIRMAN SCHMITT: No second?

22 MR. TUTEN: Are we voting?

23 CHAIRMAN SCHMITT: We've got a motion. We
24 need a second.

25 MR. TUTEN: I'll second.

1 CHAIRMAN SCHMITT: Okay. Any further
2 discussion? All in favor?

3 (Responses of "aye.")

4 CHAIRMAN SCHMITT: Opposed?

5 (Response of "aye.")

6 CHAIRMAN SCHMITT: Passes three to one.

7 MR. TUTEN: I thought it was just for
8 information. Sorry.

9 CHAIRMAN SCHMITT: All right. Now we get to
10 the exciting stuff.

11 We have KBLD with the audit -- who drafted
12 the audit for 2015, and we also have the Senior
13 Staff Plan Actuary Report -- oh, that's separate.
14 Sorry.

15 We'll go with 2016-1-8, Draft of 2015
16 Independent Auditor's Report.

17 MS. DUFRESNE: Good morning. Linda Dufresne
18 with KBLD, LLC.

19 I would like to circulate these. There's
20 two originals. I don't know who wishes to have.

21 MR. McCAGUE: Debbie.

22 MR. DUFRESNE: This is what we call our
23 governance letter. It's a letter that summarizes
24 some facts that we are required to communicate to
25 the Board.

1 MR. SCHEU: You didn't just adopt the
2 forensic auditor's report?

3 (Laughter)

4 MS. DUFRESNE: No. It's outside the scope
5 of our financial statement audit. Thank you,
6 sir.

7 MR. SCHEU: The so-called forensic auditor.

8 MR. DUFRESNE: Yes.

9 So, no. This is just -- we state in here
10 what we've done. We audited your financial
11 statements. And we are required under
12 professional standards to discuss with you or
13 communicate with you certain things about our
14 engagement. That's what this letter does.

15 We explain to you that management is
16 responsible for the selection of the accounting
17 policies, which some of them you've been
18 approving and discussing today, of course.

19 The significant policies are disclosed in
20 your financial statements. The accounting
21 estimates. We -- they are an integral part of
22 your financial statements, and we disclose in
23 this letter that we believe the most sensitive
24 estimate are the market value investments, your
25 fair market value from the difference between the

1 costs and the value that is being communicated to
2 you as the true value.

3 We encountered no difficulties during the
4 audit. There are no uncorrected misstatements.
5 There are no disagreements with management. We
6 had very good response and feedback.

7 We -- management representations. We will
8 be obtaining a management representation letter
9 that basically just says, you came, you audited,
10 we gave you everything. We didn't hide anything.

11 But it's a couple pages of paragraphs that
12 tell us that. So that will be signed, and as of
13 the date that it's signed, then the audit was
14 accepted. That will be the date on the audit
15 report. Right now there's no date on that.

16 We noted that there were no consultations
17 with other accountants that we were aware of or
18 were made aware of. No findings to disclose.

19 With respect to the required supplementary
20 information, we do not audit that. We apply
21 limited procedures to that, and this Other
22 Matters paragraph explains that to you, and that
23 the report is for your use and not to be used by
24 other parties.

25 So that's all we're required to discuss with

1 you in respect to the governance letter. So we
2 can step through the audited financial
3 statements.

4 The third page is in our Independent
5 Auditor's Report. This new -- relatively new
6 format -- it's been around about three years,
7 where it's been delineated with paragraph
8 headings which we think is an improvement on how
9 we communicate what's going on with your audit.

10 We say that we've audited your financial
11 statements, that -- what your responsibility is,
12 that you're responsible for them. Our role is to
13 audit them. We are to express our opinions based
14 on how we perceive the results of our audit
15 procedures.

16 In our opinion the financial statements do
17 present fairly in all material respects the
18 position of the fund and its changes in its net
19 position.

20 The top of the next page, there is a
21 paragraph explaining that there was a change in
22 accounting principle related to the new
23 Government Accounting Standards Board, Number 68
24 and 71 that were applied and implemented in this
25 set of financial statements.

1 Other Matters. Again, this discusses the
2 required supplementary information. It's
3 basically the Management Discussion and Analysis
4 and some of the additional information about the
5 funds in the back section.

6 We also have our other report required by
7 Government Auditing Standards in which we
8 consider the fund's internal control over
9 financial reporting and its compliance with
10 certain laws and regulations.

11 And in that report we state that we're not
12 giving you an opinion on your internal control or
13 on your compliance. We consider the internal
14 control when we -- when we develop our audit plan
15 and our audit approach and what procedures we're
16 going to perform.

17 We don't give you an opinion on the
18 effectiveness of your internal control. That's
19 not part of a financial statement audit.

20 Any questions so far?

21 MR. SCHEU: Would that internal control --
22 would that be part of your governance letter if
23 there were any problems, would it not?

24 MR. DUFRESNE: We would report to you
25 anything that came to our attention. Yes, yes.

1 Absolutely.

2 MR. SCHEU: Right. Okay.

3 MR. DUFRESNE: Management Discussion and
4 Analysis gives you some comparative information
5 between 2014 and 2015 after giving you financial
6 highlights.

7 There's condensed financial statement
8 information on Page 4 that -- comparatives are
9 sometimes helpful -- yeah, kind of small. That
10 kind of got squeezed in there.

11 Of course, they require explanation to make
12 them useful. So there are some -- is some
13 discussion on the following pages about why some
14 of those variances -- variances is a bad word.
15 Why some of those changes in balances occurred,
16 what caused them to happen.

17 So then we get into the actual financial
18 statements starting on page 7.

19 The Statement of Fiduciary Net Position is
20 basically what we used to call a Balance Sheet,
21 telling you what your assets and your liabilities
22 are. This Deferred Outflows of Resources is a
23 fairly new concept.

24 It was developed by Government Accounting
25 Standards Board because they didn't feel like

1 there were certain thing that were actually
2 assets or actually liabilities in the true sense
3 of the word. So they developed this new
4 category. And at that time they changed the
5 Balance Sheet name to Statement of Net Position
6 because of these additional items.

7 Your Statement of Changes in Fiduciary Net
8 Position on the next page just shows you the
9 contributions, the other changes to the balances
10 and the deduction from those balances.

11 And then we get into the footnotes, what we
12 call the footnotes.

13 The disclosures here are all what are
14 required to be presented in order to comply with
15 proper presentation. We describe the plan. We
16 describe your -- as we said before, the Summary
17 of Significant Accounting Policies. Starts on
18 page 10.

19 Basically those remain pretty constant from
20 year to year, but you will see that on the bottom
21 of page 11. We discuss these recently issued
22 accounting standards that were applied first in
23 this year's financial statements so that you have
24 a summary of what that means to your financial
25 statement presentation.

1 We disclose information about all these
2 other areas: Reserve accounts, DROP, deposits
3 and investments. There's quite a bit of
4 information on your deposits and investments with
5 respect to different kinds of risks to which you
6 are exposed based upon the types of securities
7 that you hold. And some other areas that just
8 expand on what is presented in the financial
9 statements.

10 And then we get into a lot of detail about
11 the actual pension plan from the actuarial
12 report. We include some of their information
13 that's provided to us.

14 And then on page 18 we discuss about the
15 SERP plan. This has been included in your
16 financials for many years, this footnote. But it
17 has been expanded this year because of the new
18 GASB standards. It's a little bit of new
19 information and a little bit up updated
20 information.

21 You will see on page 19 that Deferred
22 Outflows of Resources. That would be new
23 information completed.

24 And that was all of the main financial
25 statements. And then this required supplementary

1 information on which we do not give an opinion,
2 but we do read it in its context and make sure
3 that it's not misleading in taking your financial
4 statements as a whole.

5 And it is required information under the
6 GASB standards that it be presented for users of
7 the financial statements.

8 Any questions?

9 MR. PATSY: Go back to page 14 and 15.
10 Where do you get your fair values from?

11 MR. DUFRESNE: Actuarial reports. We test
12 them, however. We do -- we do check against the
13 market prices, et cetera, to make sure that
14 they -- you know, on a sampling basis, that they
15 are accurate.

16 MR. PATSY: How do you do that, though?

17 MS. MENDILLO: On the -- on the fair values,
18 we take what the -- what's actually held in your
19 funds, and then I pulled 9/30 for selected -- I
20 selected a few of the -- not a few. I selected
21 several of the investments and pulled what the
22 price of those investments were at that 9/30 date
23 and made sure that they had the right thing on
24 Northern Trust statements.

25 MR. PATSY: Oh, so you're pulling it from

1 Northern Trust?

2 MS. MENDILLO: Northern Trust, yes. And
3 then the actual market value.

4 MR. SCHEU: But you're independently --
5 she's not getting it from Northern Trust. She's
6 verifying the Northern Trust number.

7 MS. MENDILLO: Verifying the Northern Trust
8 number. That's correct.

9 MR. PATSY: What are you using to verify
10 though?

11 MS. MENDILLO: You can go online and
12 actually pull the current amounts.

13 MR. PATSY: Oh, okay. So you put in the
14 scope and --

15 MS. MENDILLO: Correct.

16 MR. PATSY: All right. Got it.

17 MR. SCHEU: I didn't really understand page
18 15, but I did notice, this is the Credit Risk.
19 But what puzzled me, why were the totals
20 different from what S&P and Moody's evaluated as
21 that risk? Because one total is 273- and one is
22 288-.

23 MR. DUFRESNE: I have to make sort of a
24 disclaimer here. I was not the partner directly
25 involved in -- your engagement partner is ill

1 today. So I'm going to rely on Linda, who was
2 doing most of the detail work for that.

3 MS. MENDILLO: Devin provides this to me,
4 but I verify it through the statements and such.

5 What this is, is Moody's and S&P don't see
6 eye to eye on what is a Triple A --

7 MR. SCHEU: Oh, I get that. Yes.

8 MS. MENDILLO: Right. So they didn't value
9 all of your investments. If you'll notice,
10 there's only 288 million on one --

11 MR. SCHEU: I see. Okay.

12 MS. MENDILLO: -- yeah. So they don't --
13 each entity doesn't value all of the investments
14 the same way. So that's the problem.

15 MR. SCHEU: Yeah. Okay.

16 MR. PATSY: Some of the securities are not
17 rated by different -- okay.

18 MS. MENDILLO: Correct. We discussed
19 whether we should show them just for the ones
20 that are rated, but none of them were rated the
21 same and none of them were same amounts.

22 MR. SCHEU: Sure, sure.

23 MS. MENDILLO: So he presented in it both
24 aspects. He could have just done one.

25 MR. SCHEU: Okay. The other question on

1 page 8, this is more for us.

2 If you -- number one, I was really intrigued
3 on the rental revenue of \$630,000, which I guess
4 primarily is the building. That was a lot of
5 money.

6 MS. McCAGUE: That is the building and the
7 parking garage. And of that amount, our rent is
8 250,000 of that.

9 MR. SCHEU: Why do we pay rent to ourselves?

10 MR. McCAGUE: Because this is an asset of
11 the fund. It's an asset of the fund.

12 MR. SCHEU: But we own it.

13 MR. McCAGUE: Right.

14 MR. CARTER: But you pay an expense also,
15 which is down below. So it's an even wash, zero
16 effect, because it's treated as an investment.

17 MR. SCHEU: Okay. But it was interesting to
18 me that investment expenses are separated out.

19 And I remember a discussion about that
20 earlier, but what it triggered in my mind is
21 when -- if we have an assumed rate of return,
22 which is our target of 7 percent, and let's say
23 that that negative 86 million was really a
24 positive, just for the discussion, and that was
25 right at 7 percent; but that's really not what we

1 hit because we have to add to net -- that's
2 gross. Net -- you have to add -- you have to
3 subtract the 7 million 6 in expense, assuming the
4 86- was a positive rather than a negative, that
5 would mean that you would have 79 million on your
6 net investment on this. On this, it's a
7 negative, so it increases the negative. I
8 understand that.

9 But -- so when we report this to, let's say,
10 the City Council, are we reporting on our return
11 on the -- do we take into the account the net or
12 the gross?

13 CHAIRMAN SCHMITT: Yes.

14 MR. McCAGUE: Devin --

15 MR. GREIVE: You do both. Through your
16 Flash Report, you do both. And then through your
17 actuary report, you are taking into account --
18 because Jarmon builds in an expense in your
19 actuary report to take into account all of -- all
20 of the expenses, investment and otherwise.

21 So the Flash Reports from Summit, those only
22 show gross and net with investment expenses
23 contemplated. The actuary report then takes it a
24 step further and builds in the building expenses
25 and all this other stuff.

1 CHAIRMAN SCHMITT: Administration stuff.

2 MR. SCHEU: Really, in transparency, we
3 are -- we're not saying we make 7 percent when we
4 really make 7 percent less the expenses.

5 MR. GREIVE: On the actuary report, that is
6 correct. You're reporting the return net of all
7 investment and administrative expenses.

8 MR. TUTEN: Yeah. There's two pages. One
9 has gross of fees and one has net of fees.

10 MR. SCHEU: So if I'm sitting on the City
11 Council, I'm not feeling that you're -- you're
12 misrepresenting that.

13 MR. GREIVE: Unless you're just looking at
14 the Flash Report, thinking you're seeing the net.
15 Well, you're seeing the net of investment
16 expenses, but you're not seeing the net of
17 administrative expenses. You would have to look
18 at the actuary report to see that.

19 MR. SCHEU: Okay.

20 CHAIRMAN SCHMITT: It's almost like you're
21 looking at your investment return on the Flash
22 Report. That's not your income statement.

23 MR. SCHEU: Right.

24 CHAIRMAN SCHMITT: It doesn't include all of
25 your other -- you could have other revenues, but

1 you certainly have other expenses.

2 MR. SCHEU: Sure.

3 CHAIRMAN SCHMITT: So to me --

4 MR. SCHEU: But the Flash Report does
5 reflect the expenses paid to management, to
6 people who are investing the money. I'm not
7 worried about the real estate and all that, but
8 the net of the expenses. That's what you're
9 judging your return on.

10 CHAIRMAN SCHMITT: Right. And that's --
11 that's the accounting standard. Those expenses
12 would be applied specifically to offset the
13 revenues incurred or received from those
14 investments.

15 MR. SCHEU: Those investments. Okay.

16 CHAIRMAN SCHMITT: There's got to be some
17 standardization on how to prepare an annual rate
18 of return for our pension fund versus every other
19 pension fund in the United States. If they
20 didn't have that standardization based on, you
21 know, the specific expenses related to
22 investments, there would be no way to compare.

23 MR. SCHEU: To compare.

24 It did raise for me also the ongoing
25 question of active versus passive investments

1 because you could really reduce the fees if you
2 just canned the active management and went to a
3 purely passive.

4 CHAIRMAN SCHMITT: Yeah. And that's a whole
5 nother --

6 MR. McCAGUE: That's a whole nother
7 workshop.

8 MR. SCHEU: Right.

9 (Laughter)

10 CHAIRMAN SCHMITT: Because there are down
11 sides to that as well, but, yeah.

12 MR. SCHEU: Sure. Okay. Thank you.

13 CHAIRMAN SCHMITT: Yeah. If he could
14 eliminate \$8 million and make just as much money,
15 yeah, I'm in.

16 MR. SCHEU: Yeah.

17 MR. GREIVE: That's right.

18 CHAIRMAN SCHMITT: But it's not quite that
19 easy. I have a couple questions if you-all are
20 done.

21 In your field of work and interaction with
22 the employees and staff, did you get full
23 cooperation? Did you have access to all records
24 that you requested?

25 MS. MENDILLO: Yes, sir.

1 CHAIRMAN SCHMITT: No issues with receiving
2 permission to contact whoever you needed to
3 contact, copies of whatever you needed? No
4 issues with any of that?

5 MS. MENDILLO: No issues.

6 MR. SCHEU: Did you interview Mr. Lee?

7 MR. DUFRESNE: He interviewed us when we
8 first started. I spoke to him a few years ago.

9 MS. MENDILLO: I listened to him a few years
10 ago. I didn't speak.

11 CHAIRMAN SCHMITT: And did you receive
12 copies of all the records that you requested?

13 MS. MENDILLO: Yes.

14 CHAIRMAN SCHMITT: That's all I have.

15 MR. TUTEN: I thought it was well done. I
16 liked your report.

17 MR. SCHEU: I liked it too.

18 MR. TUTEN: Very thorough.

19 MS. MENDILLO: That's -- by the way,
20 that's -- Devin worked really hard on that. He
21 was -- he was making some changes this year.

22 MR. SCHEU: That's great. Thank you, Devin.

23 MS. MENDILLO: And to follow up on your
24 questions, we truly appreciate the great
25 cooperation. We normally get great cooperation,

1 but sometimes it's not as quickly as we'd like in
2 order to turn things around. So we appreciate
3 when we get such good response.

4 CHAIRMAN SCHMITT: And I'd like to put this
5 for the record as well.

6 Do you feel comfortable enough to approach
7 any of the Board members with any concerns or
8 questions or comments that you have? Because I
9 want to make sure that you-all know that you can
10 come to any of us anytime if you have any
11 questions.

12 MS. MENDILLO: Absolutely.

13 MR. DUFRESNE: Definitely.

14 MS. MENDILLO: We appreciate it knowing that
15 and having it confirmed. And we don't hesitate
16 to do that.

17 MR. DUFRESNE: And, you know, when I'm here
18 at the audit, I run into you guys. You-all are
19 always in and out. Yeah.

20 Any questions? Thank you.

21 MR. McCAGUE: Do we need a motion to approve
22 the audit?

23 MR. SCHEU: Do we approve it? Is that
24 something -- because it's their work.

25 CHAIRMAN SCHMITT: Right. I believe we have

1 to do a --

2 MR. TUTEN: Disability and something else.

3 MS. McCAGUE: We have to accept this and
4 approve it.

5 CHAIRMAN SCHMITT: Right.

6 MR. SCHEU: So moved.

7 CHAIRMAN SCHMITT: So we have a motion to
8 accept and approve the 9/30/2015 audited
9 financial report.

10 MR. PATSY: Second.

11 CHAIRMAN SCHMITT: And a second. Any other
12 discussion?

13 (No responses.)

14 CHAIRMAN SCHMITT: All in favor?

15 (Responses of "aye.")

16 CHAIRMAN SCHMITT: Opposed?

17 (No responses.)

18 MR. McCAGUE: I would like to thank you for
19 that. By pension reform, this report is due to
20 the city today, and Kirk Sherman has said that as
21 long as we get it there in electronic form this
22 afternoon, which the Lindas have agreed to do,
23 then we have met that deadline.

24 MR. SCHEU: Thank you.

25 MS. McCAGUE: Thank you, Linda.

1 MR. CARTER: Thank you.

2 CHAIRMAN SCHMITT: Next item, 2016-1-9,
3 Draft of Senior Staff Plan Actuarial Report,
4 Attachment.

5 This is a letter from Jarmon, I believe --
6 yeah, Jarmon Welch. This is as of October 1,
7 2015, his draft of the Senior Volunteer
8 Retirement Plan Actuary Report. We need a motion
9 to accept the report.

10 MR. TUTEN: We need to make a motion?

11 CHAIRMAN SCHMITT: We need to make a motion
12 to accept the report.

13 MR. TUTEN: I make a motion.

14 MR. SCHEU: Second.

15 CHAIRMAN SCHMITT: Second. Any discussion?
16 (No responses.)

17 CHAIRMAN SCHMITT: All in favor?

18 (Responses of "aye.")

19 CHAIRMAN SCHMITT: Opposed?

20 (No responses.)

21 CHAIRMAN SCHMITT: Passes.

22 MR. SCHEU: I thought that was -- never
23 mind.

24 CHAIRMAN SCHMITT: Okay.

25 MS. McCAGUE: If I've forgotten something, I

1 apologize, but we had the workshop around the
2 actuarial report.

3 CHAIRMAN SCHMITT: Yes, we have.

4 MR. McCAGUE: But we couldn't approve that
5 at the last meeting because we didn't have a
6 quorum.

7 CHAIRMAN SCHMITT: Correct.

8 MR. McCAGUE: So do we need to do that?

9 MR. SCHEU: That's what I -- it's number 15.

10 MR. CARTER: That's next.

11 CHAIRMAN SCHMITT: Number 5.

12 MR. McCAGUE: Debbie's always ahead of me.

13 CHAIRMAN SCHMITT: Next item, 2016-1-10,
14 Approval from the Interim Executive Director to
15 seek a search firm to find a permanent executive
16 director.

17 MS. McCAGUE: Yes, and please give this
18 close attention.

19 In November when you-all agreed to sign a
20 contract for me to be interim director, you also
21 said for permanent director you wanted to use a
22 search firm because the process that you had gone
23 through the first time was entirely too time
24 consuming and you thought you could get a search
25 firm to help us vet the prospects, et cetera.

1 So I had asked to defer that until we got
2 closer to a settlement on the city suit so we
3 would have a cleaner situation to bring a
4 candidate in to discuss how we operate. So we're
5 at that point.

6 And previously we had gotten from the
7 Klausner firm two recommendation for search
8 firms: One, Hudepohl out of South Florida, and
9 the other is EFL out of Denver and Ohio.

10 And these two -- both of them say both of
11 them place most of the pension professionals in
12 the public arena in the United States. So I've
13 had conversations with both of them. They both
14 sound excellent. Their pricing is about the
15 same.

16 But Hudepohl said, I would love to help you,
17 I need to tell you, I couldn't start for three
18 months.

19 MR. GREIVE: Yeah. He's backed up.

20 MS. McCAGUE: He is backed up.

21 And EFL does not have that problem right
22 now. Both of them firms have placed many pension
23 professionals. EFL has done a lot of work in
24 past years mostly in the West, but they have said
25 they've placed in the East, and what they have is

1 connections in the pension industry.

2 And so with your permission, I would like to
3 see if we can sign a contract with EFL. Their
4 pricing is a third of the all-in first year of
5 salary for whoever we hire. Plus they ask for
6 coverage of incidental expenses at 550 a month.

7 MR. GREIVE: For what it's worth, those are
8 the two firms I would have suggested, EFL and
9 Hudepohl. Those are both the most well-known in
10 the pension industry.

11 MR. SCHEU: I'll move that. I think this is
12 another transitional thing we need to get on
13 with.

14 MR. McCAGUE: And it will take three to four
15 months, start to finish.

16 MR. PATSY: And you said both firms had
17 relatively comparable expenses?

18 MR. McCAGUE: Yes.

19 CHAIRMAN SCHMITT: I can tell you from my
20 experience, having tried to do this not through a
21 search firm is extremely time consuming.

22 MR. GREIVE: They can cast the net very
23 wide.

24 MR. SCHEU: Did you charge a third of the
25 first year salary for doing that?

1 CHAIRMAN SCHMITT: I actually charged them a
2 hundred percent more than what I did the previous
3 year.

4 (Laughter)

5 MR. TUTEN: Based on our first search, I say
6 we hire them. I make a motion.

7 MR. GREIVE: That's a good practice.

8 MR. SCHEU: Second.

9 CHAIRMAN SCHMITT: All right. Any other
10 discussion?

11 (No responses.)

12 CHAIRMAN SCHMITT: All in favor?

13 (Responses of "aye.")

14 CHAIRMAN SCHMITT: Opposed?

15 (No responses.)

16 CHAIRMAN SCHMITT: Passes unanimously.

17 Next item under Legal, 2016-1-11, Resolution
18 to Authorize Third-Party Vendors to Release
19 Information.

20 MS. McCAGUE: Just a couple of items.

21 This comes out of the subcommittee that Bill
22 Scheu and Devin and I are working with, a
23 subcommittee of the finance committee, and it's
24 what I hope is finishing up requests from the
25 city that came out of the Seidel report.

1 And what the city wants to do is do
2 third-party confirmations with banks and the
3 agencies we use in our commission recapture
4 program.

5 And so I just want your authorization to
6 allow that as well as to release information
7 regarding the five class action suits in which we
8 have served as lead plaintiff with Klausner as
9 our attorney.

10 MR. PATSY: Who do we use for commission
11 recapture?

12 MS. McCAGUE: We use -- well, we have over
13 the years used four, but right now we're using
14 two. The equity firm that we use is Convergenx,
15 and the one we use for bonds, which is not active
16 right now, is CAPIS.

17 MR. GREIVE: CAPIS? CAPIS, out of Texas?

18 MR. McCAGUE: Right.

19 MR. TUTEN: Is that who the General
20 Employees use?

21 MR. McCAGUE: They don't use them.

22 MR. GREIVE: We don't use them.

23 MR. SCHEU: This was the Klausner -- we just
24 agreed to provide it? Oh, no. These were us.

25 MS. McCAGUE: This is what we received.

1 Right.

2 MR. SCHEU: And we're trying to cooperate
3 and get them this additional information. Some
4 City Council people are more prepared to work
5 with us than others, but I think it's a very
6 cordial -- for the most part, cordial.

7 MS. McCAGUE: And what I'm trying to do is
8 respond as quickly as possible and so -- and be
9 as transparent as possible and hoping that this
10 will answer questions, and then the request for
11 information will be truncated.

12 CHAIRMAN SCHMITT: And part of what they're
13 asking for, we don't always have copies of those
14 specific documents going back to, you know,
15 however many years they're going back.

16 This allows them to contact our vendors
17 directly, which saves us some time, gives them
18 additional transparency, and I think overall will
19 give them a better comfort level that there's
20 nothing to hide; go talk to the people that sent
21 us the money and ask them how much they sent us.

22 MR. PATSY: My experience with commission
23 recapture programs, if something is going on with
24 a fund, this is the first place you ought to
25 look. Okay. That's --

1 MR. SCHEU: Why is that?

2 MR. PATSY: Well, number one, it's a
3 legalized kickback.

4 MR. SCHEU: I understand. But you mean, is
5 somebody putting it in its pocket? Is that what
6 you mean by going wrong?

7 MR. PATSY: Yes.

8 CHAIRMAN SCHMITT: Is that Rich or Rick that
9 said that?

10 MR. SCHEU: And that's -- well, I think
11 that's what they're looking at, but I think the
12 checks and the deposit slips they've already gone
13 through. Everything is untoward -- I mean,
14 everything is not untoward.

15 MS. McCAGUE: Right. But this is what the
16 third party -- Kirk Sherman, the city auditor, is
17 going to do random checks -- random checks on
18 these amounts that are coming in because we still
19 are getting the amounts in check form and they're
20 going directly into our bank account, but we have
21 all that paper trail.

22 MR. PATSY: Because of all the problems
23 historically with commission recapture programs,
24 I'm not talking specifically about this fund.

25 The practice universally throughout the

1 United States, it's -- a lot of funds have gotten
2 out of it because of the problems associated with
3 it.

4 When I was with TSBA, we had a little
5 grandmother who ran the program, for lack of a
6 better word. The last person on the face of the
7 earth you would think would have -- that you
8 wouldn't be able to trust.

9 And lo and behold, she went on vacation for
10 two weeks and things were discovered.

11 CHAIRMAN SCHMITT: So that should give
12 another level of assurance to them that they can
13 communicate directly with them to make sure that
14 what we show as being received or what should
15 have been received was actually received. So I
16 like it.

17 MR. McCAGUE: Right. And this is another
18 area, just like we talked about securities
19 litigation. Over the course of the next months,
20 we may want to look at commission recapture. Do
21 we want to stay in this business?

22 CHAIRMAN SCHMITT: Right.

23 MR. TUTEN: Well, yeah. Free watchdog. If
24 they find something, then we call Dan and say,
25 Why didn't you catch it, consultant? If they

1 don't, you know, everybody's happy they got to
2 check our books and make sure we're doing what
3 we're supposed to.

4 MR. DARAGJATI: I think over time also these
5 funds are going to get -- continue to shrink
6 because these traders are running so lean now
7 that there's nothing really to send back to them.

8 MR. SCHEU: Would it be better to negotiate
9 these fees up front net and then not have a
10 recapture agreement?

11 MS. McCAGUE: Well, what you want is you
12 want your money managers -- you want them to go
13 after very best execution. And so what most
14 investors do now is say, Money manager, get the
15 best execution, period, the end. And not ask --
16 you know, right now we ask about a third of our
17 trades be directed to Convergex.

18 And so what we would say is, Just get the
19 best execution you can.

20 MR. SCHEU: Should we consider that as a new
21 policy?

22 MS. McCAGUE: Well, we should consider it,
23 but it needs deliberation.

24 MR. SCHEU: That's what -- not today.

25 MR. McCAGUE: Right, not today.

1 MR. SCHEU: Right, right.

2 MR. McCAGUE: But, yes. I think just like
3 securities litigation, we should really consider
4 that and see what best practice is in today's
5 world.

6 CHAIRMAN SCHMITT: So today the resolution
7 is authorizing the release of information from
8 third-party vendors to the Jacksonville City
9 Council Auditor for the purpose of confirmation
10 of commission recapture amounts received by the
11 Jacksonville Police and Fire Pension Fund and
12 authorizing the implementation of such
13 authorization by the interim executive director
14 of the fund.

15 That is the motion, if somebody would like
16 to make that.

17 MR. TUTEN: Motion.

18 MR. SCHEU: Second.

19 CHAIRMAN SCHMITT: We have a motion and a
20 second.

21 Any other discussion?

22 (No responses.)

23 CHAIRMAN SCHMITT: All in favor?

24 (Responses of "aye.")

25 CHAIRMAN SCHMITT: Opposed?

1 (No responses.)

2 CHAIRMAN SCHMITT: Passes unanimously.

3 Just need your signature.

4 MR. McCAGUE: Thank you.

5 CHAIRMAN SCHMITT: Next item, 2016-1-12,
6 Authorization to release to City Council
7 information regarding five class action suits in
8 which the fund served as lead or co-lead
9 plaintiff and Mr. Klausner was compensated.

10 MR. SCHEU: So move.

11 CHAIRMAN SCHMITT: That's the motion.

12 MR. PATSY: Second.

13 CHAIRMAN SCHMITT: We have a motion and
14 second. Discussion?

15 (No responses.)

16 CHAIRMAN SCHMITT: All in favor?

17 (Responses of "aye.")

18 CHAIRMAN SCHMITT: Opposed?

19 (No responses.)

20 CHAIRMAN SCHMITT: Passes unanimously.

21 Under Old Business, 2015-12-11, Fee
22 amendment with Brown Investment Advisory and
23 Eagle Capital Management.

24 MS. McCAGUE: We've looked at this in a
25 previous meeting but didn't have a quorum.

1 Brown Investment Advisory -- they have gone
2 to not a performance-based fee but just a flat
3 fee, and they're compiling both our investments
4 along with -- as well as those in the city. So
5 we need approval for that.

6 And then Eagle Capital Management. They're
7 also going to begin pulling assets and
8 determining our pricing based on the total of the
9 city and the fund, which, again, should reduce
10 our expense.

11 CHAIRMAN SCHMITT: This is another example
12 of the fund management continuing to reduce fees
13 and working with our counterparts over at the
14 General Employees Pension Plan to combine our
15 efforts to reduce fees as much as possible.
16 Another good example of that.

17 So the motion is to accept the investment
18 manager fee reduction.

19 MR. PATSY: I move.

20 MR. TUTEN: Second.

21 CHAIRMAN SCHMITT: Any further discussion?

22 (No responses.)

23 CHAIRMAN SCHMITT: All in favor?

24 (Responses of "aye.")

25 CHAIRMAN SCHMITT: Opposed?

1 (No responses.)

2 CHAIRMAN SCHMITT: Passes unanimously.

3 All right. 2016-1-1, Summit recommends the
4 transfer of \$2 million from Northern Trust
5 Aggregate Bond Index account to NT Paid Receipts
6 Account.

7 MS. McCAGUE: This is the one for our money
8 managers and so forth?

9 MR. CARTER: Yes.

10 CHAIRMAN SCHMITT: Right. So we have cash
11 in the bank to pay the vendors. So that's the --
12 Summit recommends the transfer of \$2 million from
13 Northern Trust Bond Index.

14 MR. PATSY: Motion.

15 MR. TUTEN: Second.

16 CHAIRMAN SCHMITT: Got a motion, second.
17 Discussion?

18 (No responses.)

19 CHAIRMAN SCHMITT: All in favor?

20 (Responses of "aye.")

21 CHAIRMAN SCHMITT: Opposed?

22 (No responses.)

23 CHAIRMAN SCHMITT: Passes unanimously.

24 Next item, 2016-1-5, 2015 Actuarial
25 Valuation Report as of October 1, 2015. We need

1 a motion to accept the --

2 MR. TUTEN: I'll make a motion we accept it.

3 MR. SCHEU: Second. I found that to be a
4 very interesting conversation, and I hope I learn
5 something from it. It was so confusing, but it
6 was fascinating.

7 MS. McCAGUE: This is another report that's
8 due today, and we'll get it to the city.

9 CHAIRMAN SCHMITT: Any further discussion?

10 (No responses.)

11 CHAIRMAN SCHMITT: All in favor?

12 (Responses of "aye.")

13 CHAIRMAN SCHMITT: Opposed?

14 (No responses.)

15 CHAIRMAN SCHMITT: None opposed. Passes
16 unanimously.

17 Let's see. Next item, 2016-1-6, Application
18 for Disability Repayment and Repayment of
19 Temporary Disability for Stephen Colvin. Again,
20 this was on the last one. We didn't have a
21 quorum.

22 The advisory committee has reviewed this and
23 recommends approval of the disability pension.

24 MR. TUTEN: The advisory committee approved
25 it?

1 MR. McCAGUE: Yes.

2 MR. TUTEN: I'll make a motion we accept it.

3 MR. SCHEU: Second.

4 CHAIRMAN SCHMITT: Second. Any further
5 discussion?

6 (No responses.)

7 CHAIRMAN SCHMITT: All in favor?

8 (Responses of "aye.")

9 CHAIRMAN SCHMITT: Opposed?

10 (No responses.)

11 CHAIRMAN SCHMITT: No opposed. Passes
12 unanimously.

13 MR. PATSY: My experience with the city has
14 been when we have one of these things, if we get,
15 you know, the record that shows what that
16 individual issue is. Can we do that going
17 forward?

18 CHAIRMAN SCHMITT: We could. I mean, the
19 advisory committee -- I don't know if they have
20 an advisory committee over --

21 MR. PATSY: They do.

22 CHAIRMAN SCHMITT: Okay. The one reason I
23 think historically we haven't is generally the
24 disabilities include sometimes sensitive medical
25 information.

1 MR. PATSY: Right.

2 CHAIRMAN SCHMITT: So we don't like to have
3 a whole lot of discussion about their medical
4 conditions in the open meetings. But we can
5 certainly take a look at what sort of information
6 summary-wise we can provide.

7 MR. PATSY: Right. Because there were
8 instances in my prior experience where we
9 overruled the advisory committee, given the
10 standards for the police force and fire
11 departments --

12 MR. TUTEN: Well, a lot of it goes
13 through -- you know, our medical director doctor,
14 he has to go -- you know, he examines the person
15 applying for the -- talking about disability?

16 MS. McCAGUE: Yes. Well, he --

17 MS. MANNING: No, he doesn't examine. He
18 doesn't examine him. He just reviews two medical
19 reports from the person applying for disability.

20 In other words, they go to two doctors that
21 have seen them and know their condition. They
22 file a report. That report comes here with the
23 application. That all goes to our medical
24 director, and he reviews it and gives his opinion
25 as well.

1 In this case, we also had a legal --
2 Klausner's office also looked at it from a legal
3 standpoint because there was some confusion in
4 Dr. Baker's response.

5 But definitely legally and the medical
6 director and the advisory committee went forward
7 with it.

8 CHAIRMAN SCHMITT: And I believe one of
9 those doctors is usually one of our city doctors.

10 MS. MANNING: Exactly. Exactly.

11 CHAIRMAN SCHMITT: So it's usually workers'
12 comp, some sort of workers' comp claim. So our
13 workers, the city's workers' comp doctor is the
14 one doing one of the examinations, one of the two
15 examinations.

16 MS. MANNING: And this particular gentleman
17 had been through twice before to apply for
18 disability because of the medical issues.

19 MR. PATSY: Now, it may have been very
20 simply that these issues were much more prevalent
21 over there than they are here. This is, what,
22 the first one I've seen since I've been here.

23 CHAIRMAN SCHMITT: Fortunately, we don't
24 have nearly as many.

25 MS. MANNING: Yeah. They seem to be coming

1 more and more common. We do have another one
2 that's going to be coming up pretty soon, but
3 there's not that many that are filed.

4 MR. TUTEN: Not really. Yeah. If you go to
5 the actuary study, it should have a number on
6 there, how many are on disability pension. It's
7 not -- I want to say it was like 60 something,
8 maybe less. 65 maybe, 60 total.

9 Usually we don't even mess with it until --
10 usually unless there's a problem. Usually the
11 person claiming for the disability is denied by
12 the advisory committee for whatever reason, and
13 then they'll come to us a lot of times and
14 petition and try to -- then it gets really fun.

15 MR. PATSY: Are you required to have an
16 annual physical?

17 MR. TUTEN: Not on the fire department. No.

18 MR. PATSY: No?

19 CHAIRMAN SCHMITT: We have to pass a
20 physical abilities test, but we're not required
21 to have a physical.

22 MR. TUTEN: We used to have what's called a
23 LifeScan physical. With the police, I guess
24 you-all did it too?

25 CHAIRMAN SCHMITT: We still do.

1 MR. TUTEN: Well, now they do it for people
2 that are 50 or older. The cynic says that the
3 reason they don't do it for everybody still is
4 because they kept finding problems with people,
5 like pesky little things like cancer, you know,
6 heart disease. So rather than find a problem and
7 cure it --

8 MR. PATSY: All right. This is too much
9 information --

10 (Laughter)

11 MR. TUTEN: -- they said, We're not going to
12 do it anymore. That's just the God's honest
13 truth. That's what they do.

14 MR. PATSY: I don't want to know that. I
15 don't want to know that.

16 MR. TUTEN: They did find cancer with
17 people, too, by the way.

18 CHAIRMAN SCHMITT: Once again, thank you,
19 Rich.

20 (Laughter)

21 MR. TUTEN: It was a policeman. They found
22 cancer with LifeScan.

23 CHAIRMAN SCHMITT: There have been several
24 that they found problems and have been able to
25 catch it early.

1 MR. TUTEN: Exactly. It was very
2 beneficial.

3 CHAIRMAN SCHMITT: Still is.

4 MR. TUTEN: For us, at least.

5 CHAIRMAN SCHMITT: Under Administrative
6 Reports, we're going to defer till February the
7 records retention update.

8 MS. McCAGUE: Yes. I would just like to say
9 I'm behind schedule on this. And the reason --
10 Debbie and I have worked on this project, but the
11 reason we cannot bring forward a recommendation
12 on the records retention program, imaging and so
13 forth, is that we've spent the last several weeks
14 pulling -- going through paper files trying to
15 find the paper documents, which is the best
16 example of why in the world we need to move to an
17 image storage platform.

18 So we are committed to have that for you by
19 February.

20 CHAIRMAN SCHMITT: All right.

21 In closing, again, I would like to thank our
22 interim executive director, Beth, for -- you've
23 really done a tremendous job the last few months.
24 It's made a difference, not just within these
25 walls, but in the community, I think there's a

1 whole different perception that's starting to
2 take over and it's a positive one. And that's
3 due in great part to your work. So thank you on
4 that.

5 MS. McCAGUE: Well, thank you. I'm enjoying
6 it. It's wonderful. And I appreciate
7 everybody's support. You all have been great.
8 Thank you.

9 CHAIRMAN SCHMITT: And the staff members.
10 It's been some trying times. We recognize that.
11 We appreciate all your hard work. It's been
12 stressful for you-all. You-all have stepped up
13 and continue to step up. So thank you.

14 And please thank your coworkers as well if I
15 don't run into them. So we appreciate that.

16 And, of course, our fellow trustees. This
17 is a volunteer -- voluntary position. You-all
18 have put yourself out there, your time and your
19 talents. I think we've had some great
20 discussions. I like the approaches that we take,
21 honest, direct and respectful to each other, and
22 I really appreciate the work that you-all have
23 done. So thank you.

24 And with that, we are adjourned at
25 12:17 p.m.

1 (The Board meeting concluded at 12:17 p.m.)

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3 CERTIFICATE OF REPORTER

4 I, Denice C. Taylor, Florida Professional
5 Reporter, Notary Public, State of Florida at Large,
6 the undersigned authority, do hereby certify that I
7 was authorized to and did stenographically report the
8 foregoing proceedings, and that the transcript, pages
9 3 through 169, is a true and correct computer-aided
10 transcription of my stenographic notes taken at the
11 time and place indicated herein.

12 DATED this 23rd day of February, 2016.

13

14

15

Denice C. Taylor, FPR
Notary Public in and for the
State of Florida at Large

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My Commission No. FF 184340
Expires: December 23, 2018

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