PUBLIC MEETING BETWEEN

CITY OF JACKSONVILLE

AND

JACKSONVILLE POLICE AND FIRE PENSION FUND

MODERATOR,
RODNEY WARREN SMITH, Esquire
Avera & Smith, LLP
2814 Southwest 13th Street
Gainesville, Florida 32608

DATE TAKEN: May 12, 2014
TIME: 9:03 a.m. - 10:51 a.m.
PLACE: City Hall
St. James Building
Lynwood Roberts Room
117 West Duval Street
Jacksonville, Florida 32202

reported by:
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THE MODERATOR: All right. Good morning, everyone. Let's pick up where we -- I hope everybody had a great Mother's Day. And let's get back to our work this morning.

The first thing I have in front of us from the City -- I had asked -- and if you can put that up, please. I think we now have -- and I just want to make sure that we have in front of us the early retirement calculation number. Everybody should have a copy. That was just given to me.

John, you've got a copy of this?

Okay. That's the one that we had looked at last week. That's the one that I think was a -- it's a little bit of a change from what was agreed on last fall.

If you remember, we took, John, and used the two and a half percent rate, the accrual rate, and applied the accrual rate, and that became also the discount rate, if you will, so that we kind of evened that out so there wasn't -- but we -- but we started counting from the -- I think your term was we started counting from the bottom.

We have a floor that I think is slightly lower than the floor was before, but the -- but

the accrual in the last two years ultimately was about, I think, in the last year, 70 percent and 65 percent or one-half of -- one-half of -- one-half of 1 percent difference, is what I think it is.

MR. HAND: Uh-huh.

THE MODERATOR: So, Joey, thank you for putting this together in the format that we had looked at it before.

With that, I think that -- I understand -- and I'll repeat this, as I do at every meeting for everybody's comfort zone -- but realizing that everything is temporarily agreed to, based on where we ultimately end up. Everybody in agreement that this is what we had agreed to and that these are the numbers we will use if we're able to reach an agreement in this?

MR. KEANE: Correct.

MR. HAND: Yes.

THE MODERATOR: Chris?

All right. Thank you.

Secondly, what I had done today is I had put together -- but I -- before I kind of get to it -- before I kind of get to it, I want to go to the -- remind everybody where we were because, if you're

like me, a weekend is a year.

Where we were before is that we had kind of put out here a proposal between us. And I'll kind of reiterate that No. 1 would be the Financial and Investment Advisory Committee. No. 2 was the ethnics, certifications, disclosure requirements for investment managers and advisers. No. 3 was not yet agreed upon, but it had to do with the use of the general counsel. And we're still working with that language.

And, John, I understand you have some language this morning that we will be looking at again.

No. 4 would be -- no longer would be included, and No. 10 would no longer be included. No. 4 being -- if you recall, No. 4 was -- would have been the -- what I'll call the fifth member issue. No. 5 would be as it was written except that, in light of No. -- if No. 4 was omitted, the mayor language would be omitted. Six has -- would be accepted. Seven would be accepted, except that -- no, seven would be accepted. Eight, I think the only issue in eight, then, would have been regarding how we use the language of the 2014. And then I think eleven and twelve would then be agreed upon. Ten would be omitted. And twelve would be the last thing. Of course, thirteen was no longer required by either side.

Now, I know that nobody had signed off on that because, essentially -- and you guys correct me if I'm wrong -- I had sent that over to both of you to take -- to look at, and I know we were talking about language, but I think at the heart of the agreement is whether or not the City is prepared to now -- the potential agreement would be whether the City has reached some comfort level, with the omission of Item 4 -- omission of Item 4 and whether or not we can reach some language that we can all live with as to Item 3.

Remember, I had a proposal that was the moderator's proposal as to Item 3, but I know that you have some language on your way over, John, No. 3, and we'll take a look at that.

So let's talk about Item 4. Where are we from the City's --

MR. HAND: Senator --

THE MODERATOR: -- perspective on that?

MR. HAND: -- just to clarify real quick -- and -- because I think there are now four of the governance provisions that are off the table.

Thirteen, because the PFPF indicated that was not a priority or an interest of --

THE MODERATOR: Correct.

MR. HAND: -- theirs, so that sort of disappeared --

THE MODERATOR: Correct.

MR. HAND: -- removed from any consideration. And I believe we already have agreement on three of the task force recommendations. That's No. 1, which is Financial and Investment --

THE MODERATOR: Correct.

MR. HAND: -- Advisory Committee; No. 2, which is ethics, certification, and disclosure requirements --

THE MODERATOR: That's correct.

MR. HAND: -- and No. 6, which is --

THE MODERATOR: Correct.

MR. HAND: -- actuarial standards, transparency, and disclosure. So --

THE MODERATOR: That's right.

MR. HAND: -- those four, by one means or another, are now either off the table or agreed to --

THE MODERATOR: That comports with my recollection of it, yes.

MR. HAND: I will tell you the City is likely to have a counterproposal to what the moderator first advanced and the PFPF also advanced. We do not have one first thing this morning because we're still going over some language. So we are going to bring that back to the table. We do not have it ready this morning.

THE MODERATOR: I understand that. Now -- and I understand that as to Item 3, which is the general counsel issue, that you have some language that's either on its way or being put together right now?

MR. KEANE: On its way over.

THE MODERATOR: Okay. Thanks.

MR. KEANE: Fast as they can get here.

THE MODERATOR: I know. And I take some blame on that because I know I had that language that I was -- that I had looked at Friday, and then somehow I have managed to lose it in cyberspace, which has been my rule since last Friday with my phone, which has twice been looked at. I don't know what the problem is.

With that, I'd like to move, then -- because it seems like we're very close on these issues, but we'll let this kind of percolate for a minute.

And I want to go to the next kind of general category of subjects. And that is what I think --

MAYOR BROWN: It just came.

THE MODERATOR: Is that the three? If I could look at that first.

Yes. Okay. Pass that out.

MR. KEANE: There's one for you and one for the court reporter.

I meant to try to get this paper toss over the weekend, and I know I can get that one, good chance of that one.

Derrel, let's see if you can get airmail there.

MR. CHATMON: I got that.

THE MODERATOR: If you would date this, guys, so that we kind of keep these -- because this is, like, the fourth proposal. So let's make this the --

MR. KEANE: 5/12.

THE MODERATOR: -- 5/12 of '14. If you would, pencil at the top of that 5/12/14 so that we can keep this -- because I think this is our third or fourth proposal on this. I realize for the City this is slightly different language, but not dramatically different, but I would ask that the City take a look at this.

Cindy, particularly, I know you'd want to focus on it. And I know you haven't had a chance to see it.

The charter and the State law empower the Board to retain its own counsel, to use the Office of the General Counsel, or both. The parties agree that the OGC is a proper source to handle daily legal business for the fund, for example, open records, open meetings, issues not requiring specialized pension or investment law experience. The fund's counsel and the OGC shall consult on a regular basis to ensure the Board is provided legal services in an efficient and cost-effective manner. The management of legal services for the Board shall be consistent with the provisions of Sections 175.061, 185.06 of Florida Statutes. The parties agree that the current legal counsel structure and fees are fair and appropriate.

That is a -- kind of putting this in order, you'll remember that we have the original offer that you-all had made, a response, then a use of the Office of General Counsel provision the moderator had included, and then discussions last week and then -- now, this would be the proposal

back from the -- from the fund -- for the Board, excuse me. And I'd like to talk about that a little later this morning.

Do we have questions about that now, or would you like a few minutes, or, Cindy, you --

MS. LAQUIDARA: Yeah. You know, overall, I think the subtext of us using -- the Police and Fire Pension Fund using the General Counsel's Office in the manner that every other agency does, which is for our expertise and to save expenses, is fine.

I don't know why in a mediation provision there's a position taken that is contrary to what my reading is because it -- we're either compromising or we're not.

THE MODERATOR: Where is that one?

MS. LAQUIDARA: Well --

THE MODERATOR: Which one?

MS. LAQUIDARA: -- in accordance with Chapters 175.061 and 185.06, we do not agree with that interpretation. And so there's no need to write it down; okay? They can maintain their position it applies; I can maintain my position it doesn't. But if we're going to mediate this, then let's not each grab parts of it that we think are

to our advantage because the real issue is resolved in the text of this.

THE MODERATOR: Is that sentence the only thing objectionable to you in there?

MR. HAND: Well, I have, actually --

MS. LAQUIDARA: Well, but first --

MR. HAND: -- a question before we even get to that. This question is for Mr. Keane.

Mr. Keane, you had essentially advanced a proposal on governance that sort of took the moderator's sort of proposed compromise and made some tweaks to it and forwarded that. I believe it was on Thursday when we last got together. Are you now modifying that proposal? And in that proposal you had indicated that you would accept the moderator's language on Recommendation No. 3. I believe that's correct.

And, again, not saying this pejoratively, I just want to make sure I'm clear. This now essentially modifies that proposal so that, as to Issue No. 3, which is the use of the general counsel, this is the language the Board is now forwarding --

MR. KEANE: Yes. That is correct.

MR. HAND: Okay.

THE MODERATOR: Yeah. Let me -- let me kind of correct -- I say correct. I don't know if it's the right term. The use of the general counsel language that I had --

MR. HAND: Right.

THE MODERATOR: -- was -- reproduced was this one.

MR. HAND: Correct.

THE MODERATOR: Actually, they came back after that with a very short use --

MR. HAND: Got you.

THE MODERATOR: -- of the general counsel --

MR. HAND: Okay. This is the latest proposal they have, but there hasn't yet been a rejection of -- and I -- and we may still end up working off of language that is contained in No. 3 of the moderator's proposal. But all of these, I think, highlight -- and I think Cindy's response is, "Look, I think we ought to make this workable. To make this workable, let's put down the language that will work for both sides."

Either one -- neither is going to concede their legal position, but that there's a workable middle ground here without their conceding their legal position, but the most objectionable part of that, as I heard you say, was the sentence about 175 and 185 of the most recent proposal.

MS. LAQUIDARA: Yes. So the first -- if one deleted the first sentence and then the sentence -- the penultimate sentence, then -- and essentially retained the exact body of what Mr. Keane's saying, we're fine because it just states what we're going to do. And there's no reason to state why we're going to do it. I think that would preserve both parties, their position, and let us get on with it.

THE MODERATOR: Let me go back, then, just for a moment and take a look at No. 3 as the Board had.

MS. LAQUIDARA: I like Mr. Keane's. I think he's come -- really puts -- really captured where we are in this amendment, and so -- in the one he's handed out today. And I think just those two changes really lets us leave it alone and gets his exact language without asking him to concede anything. We're not asking -- I think that preserves all rights for Mr. Keane to argue those points later.

THE MODERATOR: And, of course, we do have -- we will have a record of these proceedings, that,

if we were to reach that language, it would be that both parties were maintaining their legal position, but for purposes of agreement, would be finding language that they think would be workable, hopefully, to avoid this issue in the future.

MS. LAQUIDARA: Uh-huh.

THE MODERATOR: Now, I think where I was going next, folks -- because I know the City hasn't come back with the critical issue of No. 4. And when I say the critical issue, I mean, I think -- I think the Board has made very apparent at this table how important that issue, No. 4, is to them. I think that an awful lot hinges on that. Where we are now is I'd like to move to have a discussion this morning about -- and I want to hear whether or not there is or will be a counter on the issue of current employees.

John, the Board made, in their initial presentation --

MR. HAND: You mean the City?

THE MODERATOR: The Board. I'm sorry. The Board received, in the initial presentation from the City -- made, I guess, a week ago -- made the proposal, and the proposal had many components,

but one of the components that I think was different than what we've been calling the MSA, the mediated settlement agreement, was the treatment of current employees. And the mediated settlement agreement had some treatment of current employees of -- not dramatic, but there were some changes in the treatment of current employees.

This would be more. For a starting point, if I could go back to the City, I want you to just kind of explain again what differences your proposal has for current employees than that which was contained in the mediated settlement agreement.

MR. HAND: Right. So the changes would be -- Carol, do you have that on the PowerPoint still, the presentation we made --

THE MODERATOR: That would be May 6.

MR. HAND: Page 22, May 6.

THE MODERATOR: Yes. City Proposal No. 2.

Page 39 of the task force report is also part of this.

MR. HAND: Put that on the board for everybody.

THE MODERATOR: I'd like you to put up the proposal because I want to start that this

morning. We've got to get kind of refocused on this issue for a moment while we --

MR. HAND: It's Page 21.

THE MODERATOR: Before I leave this -- and I know that you have all the time you want on this, within the constraints of what we've outlined as our schedule. Do you expect the City today to have a response to Issue No. 4 in the governance?

MR. HAND: I would say at the latest we expect to have one at the very beginning of tomorrow morning.

THE MODERATOR: Okay.

MR. HAND: I can't promise there will be one today.

THE MODERATOR: I understand.

MAYOR BROWN: Yeah. We, you know --

THE MODERATOR: I got it.

MAYOR BROWN: It may be at the end of the day. It may be, but definitely by tomorrow.

THE MODERATOR: Okay.

MAYOR BROWN: I just --

THE MODERATOR: Just -- we're on a tight schedule, and I think that is a linchpin of whether or not we get that governance put to bed.

MR. KEANE: Today's a short day too.

THE MODERATOR: And today's a short day. Everybody knows that.

MAYOR BROWN: No. I get that.

THE MODERATOR: All right. Go ahead.

MR. HAND: All right. So as to current employees, obviously, we talked about that no benefits earned as of the date of plan implementation would be impacted. Because the plan would be implemented as of October 1st, 2014, we moved the recommendations from the Retirement Reform Task Force and indicated the proposed term of those benefit changes would be from October 1, 2014, through September 30th, 2017 -- also talked about making future pension benefit determinations through the collective bargaining process.

So just to kind of -- as a refresher on what the proposed benefit changes would be -- and, again, these are the Retirement Reform Task Force recommendations for current employees. For current employees who have greater than ten years of service right now, on a going -- right now there is a guaranteed 3 percent COLA starting as early as three months after retirement. The proposal would be to cap the COLA at 1.5 percent, make the COLA the lesser of that, and CPI, as

measured by the Social Security COLA, starting that the third January after retirement.

For those employees with less than ten years of service, again, moving from the guaranteed 3 percent COLA to 1 that is capped at 1.5 percent, starts the third January after retirement, but starts no earlier than Age 55. So there would be an age floor, an activation floor, at Age 55 for current employees.

For the DROP, Deferred Retirement Option Program, the current system has a guaranteed 8.4 percent rate of return. Under the task force proposal, which we moved as our current employee proposal, this would change that to the actual rate of return with a rate floor of zero and a rate cap of 10 percent.

The employee contribution right now is 7 percent. I know Mr. Keane's had some commentary on other sources of contributions, but the amount coming out of an employee's paycheck right now is 7 percent. Our proposal, which mirrors the task force proposal, would be to raise that from 7 percent to 10 percent, 8 percent immediately upon plan implementation, from 7 to 8, and then from 8 to 10 when the previous pay cuts taken by police

and fire employees are restored. So, again, that would go from 7 percent to 10 percent in an effectively two-stage process.

And then, finally, the issue of final average compensation period, this would apply to employees with less than ten years of service. Currently it's based on the last 24 months of employment. This would now move it to a period of time that's based on the last 60 months of employment, with the caveat that that amount could not be less than the 24-month amount that would be in place as of the date of plan implementation, so October 1st, 2014. So for whatever the -- whatever the two-year number it would be as of October 1, 2014, that would essentially serve as a floor.

THE MODERATOR: Go back and remind me, guys. When we did the MSA, as to the issue of the employee contribution, if I recall the MSA correctly, there was a 1 percent -- had it been implemented, there would have been a 1 percent contribution that was being made by the Board on an interim basis.

MR. KEANE: We're doing it now, 4 percent.

THE MODERATOR: There would have been one additional percent?

MR. KEANE: Something like that.

THE MODERATOR: Yeah. If I remember right, it would have been one additional percent --

MR. HAND: It was for a one-year period or for a two-year period into base benefits, but really was not -- at least from my memory of the MSA, was not tied to the employee contribution. What we agreed on that -- what we agreed on that last year was an increase from 7 percent to 9 percent of pay that was -- that would be activated following the restoration of the pay cuts; in other words --

THE MODERATOR: Okay.

MR. HAND: -- once the pay cuts were restored, portions of any future pay increases after that would go to increase the employee contribution from 7 percent to 9 percent, so it would not be as immediate as what's being proposed here.

THE MODERATOR: What you're proposing here would be that there would be an immediate additional 1 percent out of the employee --

MR. HAND: Correct.

THE MODERATOR: -- pay that would go to 10 percent, but that would only go to 10 percent when

the pay cuts, which were 2 percent --
MR. HAND: 2 percent.
THE MODERATOR: -- are reinstated?
MR. HAND: Correct.
THE MODERATOR: Though you are currently negotiating with, I think, FOP and then the -- I mean, is it FOP or --
MAYOR BROWN: Local 122.
THE MODERATOR: -- PP -- FOP.
MR. HAND: Yeah.
THE MODERATOR: And then the firefighters is one year behind.
MR. HAND: It is. Now, just to be clear, we have come back to the table with the firefighters. They effectuated a waiver as it related to collective bargaining of pension benefits. There's always the possibility of coming back to the table a year earlier with fire. Right now the only one that's on schedule is the FOP. Their current contract expires on September 30th.
THE MODERATOR: And how again does the -- did the MSA address -- did it retain the last 24 months for calculation purposes?
MR. HAND: It did not. It did -- the MSA, on these other matters, did not affect current

employees.
THE MODERATOR: At all?
MR. HAND: Correct. Yeah. The only change for current employees on this list was --
THE MODERATOR: No. 4.
MR. HAND: -- the treatment of the employee contribution --
THE MODERATOR: Right.
MR. HAND: -- the way we've just described.
THE MODERATOR: All right. With that kind of reopening this conversation, John, I'd like your reaction to it. First of all, is the Board going to make a proposal in this area? And if not -- I mean, you're not compelled to. Does the Board have a reaction to this? And I want to -- I want to hear the Board's reaction to where we are on this. And I want to try to search for ways to see if we can move in this area at all.
MR. KEANE: Well, first we want to make it clear that the City proposal does not follow in toto the mediated settlement agreement. We hear a lot of times, the proposals we advance, they keep referring to, "Well, that's not what you agreed" -- "in the mediated settlement agreement."
Well, the mediated settlement agreement has

been rejected. It was a good start, a good effort on everybody's part, but it's rejected. It's --
THE MODERATOR: Rejected by counsel?
MR. KEANE: -- rejected.
THE MODERATOR: Right. I understand.
MR. KEANE: Right. So we oppose any significant changes for current employees. They were hired with a benefit structure. They have paid into -- to contributions to support the benefit structure.
Four percent of the chapter funds that would otherwise be allocated to the individual employees have been paid into the fund to support this benefit level, and to take that away from them, we don't think is proper, probably not lawful, and certainly contrary to a sense of fairness and justice. So, you know, we want the current employees to remain where they're at for that.
THE MODERATOR: Let me ask a question, back to the City. How was the ten-year line arrived at?
MR. HAND: And I don't want to speak verbatim for the task force, but as best I can recall, the task force wanted to recognize that there was a distinction between -- in other words, that all

current employees should participate in some meaningful way in retirement reform, but that there was a distinction between employees who were closer to retirement versus those who were sort of earlier in their careers and had more time to plan for retirement.
So that ten-year, I think, the fact that there were some enhanced changes for employees who are less than ten years of service was a recognition of the fact that they're earlier in their careers, have more time to plan for retirement, and there's also more impact the changes to those employees has on the overall kind of financial state of the -- of retirement issues for the City.
THE MODERATOR: Conversations -- and I know that I'm kind of plowing what -- but not everybody here was part of that. One of the conversations that we had during the mediated settlement, that I recall, was kind of a persistent discussion of the idea of people make a job decision, a career decision, and they say, "I'm going with the City of Jacksonville, and I'm going to the City of Jacksonville for these reasons," a package. And they make that evaluation, just as they -- "That's

why I prefer Jacksonville over Orlando," or "I prefer Jacksonville over Tampa, is because I've looked at the entire package."

And they've made this decision. And they've been here for -- this situation, they will have worked -- if they came at 22, which is the age we've been -- the task force used and I'm comfortable with, and Joey tells me is within the realm of reason, if it's -- if they came at 22, under what the task force recommended -- and I've read the recommendations and don't disagree or agree. It doesn't matter.

What I -- what would be happening now is that a 31- or 32-year-old guy -- or when I say guy, male or female, obviously -- is now faced with a changed set of circumstances. They've put in ten years, almost. Let's say they're nine years, plus. They've put almost ten years -- the package -- which in retirement is a significant decision when you're going somewhere in police and fire because that's typically a career line that lasts a long time, I guess, as your chiefs and assistant chiefs here started at some point in time on a ladder truck.

What do you say to the guy that says, "Okay. You're 31 years old" or "32 years old, and you made a decision to come to" -- "and now the rules of the game are changing. And the guy who came in in the class ahead of you, they're not changing for him or her"? Kind of a response to that --

MR. HAND: Sure.

THE MODERATOR: -- because -- and I'm not throwing this out as my argument. These are --

MR. HAND: Sure.

THE MODERATOR: -- the discussions we had, and I want to get these discussions back in front of us because I think they're at the heart of the decisions that we have to make on this subject.

MR. HAND: Sure. I would say several things. Number one, first, we've all got a stake in making sure we've got a stable retirement system. Everyone needs to play a role in that; two, that retirement benefits are part of the overall compensation package, not the entire compensation package; three, I think it's important to kind of take into account that -- and I think it's sort of what the overall landscape is on pensions, and that's what sort of this next chart shows, as well. These types of changes that we're recommending for current employees are, frankly,

very consistent with changes that are happening in other jurisdictions and, frankly, some of those same jurisdictions that compete with the City of Jacksonville.

So, for example, as you know, the FRS ended its COLA for all service for special risk employees after July 1st, 2011. As you can see, for example, in the category of employee contribution, there are other cities who are significantly higher than what we're recommending.

At present, the City of Tampa charges 13.26 percent contribution for its police and fire members. Now, interestingly, they've tied theirs to the performance of the plan. So as the plan's performing not as well, the employee contribution goes up, and vice versa. The City of Miami is 10 percent for their fire employees, 13 percent for their police employees.

But I think the other key issue -- and Derrel might want to speak to this a little bit -- the argument's been advanced that, "Well, we don't want to have two people on the same equipment who have two different benefit packages."

That happens already. I mean, that's already the case right now, that you have multiple

employees on the same equipment or on the same shift who have different levels of contribution, whether it's because of step raises or because of some of the other factors that go into the overall compensation package, so that the idea that we're going to somehow impact morale because there's a little bit different level of benefit between two employees -- as I understand it, Derrel, that's --

MR. CHATMON: Right.

MR. HAND: -- the case as it is right now.

MR. CHATMON: Without question. The point that Chris is addressing is something that Jacksonville has experienced for years. We have different leave plans. We have different compensation levels that separates us.

The idea that you have two people on the same apparatus which may have different benefits because it's part of the package has been going on since Jacksonville has existed. It's just a matter of when the implementation takes place and the changes that occur.

Now, understanding Mr. Keane's point is that he's looking at retirement as a totality, but as Chris's point points out, this is compensation overall for the entire package, both the dollars that go into their pockets from wages, as well as retirement.

MS. LAQUIDARA: And if I could briefly -- because the other matter that we brought up at the mediation, which I think is key to why these are so difficult here -- look at -- Chris has and Derrel has the nature of those. This is the issue. It's to the trust's benefit to increase the financial solvency of the trust. And so negotiating for something that does not bring more money into the trust is against the interests of the existing retirees.

And so that's the difficulty that this 30-year position put Mr. Keane in. He's negotiating to say, "Well, we should pay a guaranteed 8 percent, even if the fund returns four." And that is attacking the very corpus that the trustees are supposed to be increasing.

So I think the recognition of that principle was one that led us to, you know, really looking at the minor issues on the -- on new employees but by hitting those that were consistent with other jurisdictions.

THE MODERATOR: John, kind of --

MR. KEANE: Sure. Sure.

THE MODERATOR: I'm kind of turning it around back to you and -- kind of make the same argument. When I read the task force -- what I see the task force addressing is they say, "Look, this is for overall fund health."

MR. KEANE: Uh-huh.

THE MODERATOR: "We think the overall fund is healthier if we do" -- "make these changes and will be healthier over the long term by making these changes."

And, admittedly, ten years is not a magical time period, but it was one that was essentially the first one-third of employment, meaning that two-thirds -- presumably, those who are past one-third of their employment won't be affected at all by this. The people who are in the first, roughly, one-third of their employment in a 25 to -- I mean, what is a 30-year plan -- again, react to this and tell me the Board's reaction and also what role you think the Board -- where the Board fits into this issue of contribution by the employee, especially linking that to wage reinstatement.

MR. KEANE: Okay. Well, let's start with the last point that Mr. Chatmon made, that there are

different leave plans. The leave plan was changed for people that are going to be coming. No one that was here had the leave plan changed, yanked out from underneath them. It was established for future employees; is that correct?

MR. CHATMON: That would be correct, but the two people would still be on the same apparatus.

MR. KEANE: It doesn't matter whether they're walking or riding. The leave plan was changed for new people. Nobody that was here had their leave plan changed; correct?

THE MODERATOR: Which this plan has done -- would already do.

MR. KEANE: We proposed to do --

THE MODERATOR: We agree that new employees are going to be on a different --

MR. KEANE: Exactly.

THE MODERATOR: Different --

MR. KEANE: This is --

THE MODERATOR: -- plan --

MR. KEANE: This is --

THE MODERATOR: -- already.

MR. KEANE: This is changing current people, which is not the case in the illustration Mr. Chatmon made. And to Chief Hand, that's an

interesting note up there that -- he talks about the FRS. Well, the FRS contribution is 3 percent from the employee. Now, you know, do we want to put the new people in FRS? Is that -- are we not even going to talk about that? I don't want to do it, but we keep bringing FRS in here.

So -- and the Tampa people and the Miami people, the 4 percent that we currently put in -- because people keep saying the people only pay 7 -- and Tampa and Miami, 4 percent goes into their individual share accounts. Now, you can't have it both ways. You can't say in Tampa they pay 13.26 and they get a share plan, which they don't say, or you say in Jacksonville they pay 7. They don't have a share plan, but 4 percent is used.

Now, if we're going to put the numbers up, we ought to put the numbers up which are reflective. The pension fund receives, for our current employees, 7 percent from their salary and 4 percent of the chapter money. Seven and four is eleven. And it's more than Miami.

THE MODERATOR: Now, in the MSA we did address that issue. Am I incorrect that there was some interim additional funding that the Board --

remind me and tell me how that fits into what's being proposed here.

MR. KEANE: We agreed to make some additional contributions, but in the MSA we also --

THE MODERATOR: But, now, that would apply to everybody from --

MR. KEANE: Correct.

THE MODERATOR: All current employees?

MR. KEANE: Correct. Because the funds -- source of funds we were going to use is accumulated chapter funds that were accumulated for the current employees. The 4 percent from the chapter fund that is paid into the base benefit fund on behalf of the current employees is to provide for some of these benefits that at the time were enhanced benefits. The City has since provided those same level of benefits to the general employees and correctional officers. They're no longer enhanced benefits.

THE MODERATOR: Once again, I wasn't over here -- I only know what I read in the newspaper, and due respect to our audience, that may or may not be accurate. I said may or may not, which is better than what I would say privately.

My view on this was that one of the

concerns -- and the task force addresses this in the report, not explicitly but I think implicitly in the report -- is that the Council -- that we're here because the Council did not pass -- did not accept what we had as the MSA. Now, I can't tell you what any one person who wasn't reporting that way -- and I'm -- and I haven't gone back -- and I'm not going to go back and read transcripts, and I don't know what they would tell me, anyway.

But what I'm getting at is, let's talk about kind of the practical aspect here. What's your view of what role current employee contribution or current employee participation in the changes play in likelihood of the success of any agreement we reach?

In other words, if we sit down and we reach something on governance and we reach something on addressing the unfunded liability, which we'll talk to some today, but we -- and we've done what we've done, which I think is we've moved new employees and -- that's out of the equation. Current employees seem to have been, from the task force rendition -- and I want to ask both sides to comment on this. How important were additional changes in current employees in your mind to --

because if this is going to work at all, as you say, it's got to be, not only agreed here, it's got to be agreed to around the hallway here. Tell me what you think, if any, current employee contributions play in the likelihood -- if there's not something else done on current employees, can we get the Council to agree to this, in the Board's view, or does that matter to you?

MR. KEANE: Well, there's two things -- sure, it matters. The charter says that all pension benefits have to be enacted by the City Council. Because of press reports that inaccurately reflect the situation, some of our citizens believe that the Pension Board created the pension benefit structure we have.

Nothing could be further from the truth, as everybody at this table knows. City Council created every, single pension benefit that we have, and we're thankful for that. We have agreed, in our earlier discussions, to make a significant additional contribution from the enhanced benefit account reserves.

THE MODERATOR: Was --

MR. KEANE: New employees --

THE MODERATOR: Was that the --

MR. KEANE: New employees --

THE MODERATOR: Just remind me. When you say that, was that the 20 million?

MR. KEANE: It was at the time the 20 million.

New employees who are getting a significant lower benefit level, we're not going to pay 4 percent for them. It's just unrealistic. You can't do it, you know?

THE MODERATOR: And the reason being because you don't think that's -- because they're not receiving the same enhanced benefit?

MR. KEANE: They're not receiving the enhanced benefit. And they're going to get a chance to vote on the benefit structure. And, you know, the statute is clear. The chapter funds are for enhanced benefits.

And if you've lowered somebody's benefit, no amount of lowering can -- take lower benefits and convince anybody that they're getting more. It just don't work that way. And we wouldn't even try that. So, while we're strongly committed to comprehensive pension reform, it has to be comprehensive pension reform.

THE MODERATOR: Well, tell me -- and by the way, I say this to both sides. Whenever I -- and I've been doing this right at 40 years now, sadly. Whenever people tell me the statute is clear, if the statute is clear, we'd never have disputes. We have lots of them, and sometimes not only are they not clear, the rulings aren't clear.

But -- so tell me, as to current employees, what does the Board -- does the Board have any recommendation? And if not, how does that impact the likelihood of getting Council approval, given what the task force has recommended, which I think this reflects? And you -- I know you follow this very closely in terms of your job. What's the likelihood of getting an agreement if we don't have some current employee change approved by Council?

MR. KEANE: Well, the first thing you have to do is, on the sheet music that you're going to present to the Council, you ought to have the true facts. Quit talking about 7 and talk about 11. And make it clear that on behalf of the current employees 11 percent of the rate of pay is going into the pension fund. And quit this devious deception. You know, the actuarial report -- wait a minute. If that was too strong, let me withdraw

that.

MR. HAND: It's not only too strong; it's entirely inaccurate, but, you know --

MR. KEANE: This is inaccurate up here. Chief, this is inaccurate.

MR. HAND: Yeah. Yeah.

MAYOR BROWN: So let me -- can I -- can I just --

THE MODERATOR: Go ahead.

MAYOR BROWN: So -- just so we can get back in focus here, John, what is it that you -- that you think from the Board perspective would contribute to the current employees helping to make sure that the Board's fiduciary responsibility would be to make sure that the retirement reform is comprehensive and secure?

MR. KEANE: Uh-huh.

MAYOR BROWN: Are there any variables that you can just tell us --

MR. KEANE: Right.

MAYOR BROWN: -- that would be things that the Board would consider, maybe not -- just consider. Can you just talk about that for a few --

MR. KEANE: An additional contribution --

MAYOR BROWN: Okay.

MR. KEANE: -- on the current members' behalf to supplement their current contribution as already supplemented. We could transfer some additional 175 and 185 funds to preserve these benefits.

MAYOR BROWN: Anything else that you think the Board would consider?

MR. KEANE: I think they would consider that, yes, sir.

MAYOR BROWN: In addition to what you just said, the 175, 185, anything else that they would consider?

MR. KEANE: No. There's not much else to consider. As the lawyer from Tallahassee who came over here, Mr. Linn, told the task force, we have an agreement between the Pension Board and the City, and that's what governs our conduct and relationship. And so we want to make the necessary amendments to have a productive pension plan going forward, but that does not include dismantling what our members gave up along the way.

In 1996, the members took a -- the new members took a 25 percent reduction in their

starting salary to help stabilize the pension fund. And the City contribution at the time, when they needed this stabilization, was 3.9 percent. But they reduced the salary for future police officers and firefighters by 25 percent, but they had an ARC where after seven years they would begin to catch back up. So there's lots of ways to do it. We could make a supplemental contribution over a period of years that, with the enhanced City contribution and strong market returns, we would then see the benefit of the reduction in City contributions.

Now, in the previous charts that were put up there that show how the City contribution increased since you have become mayor, there were two main driving forces for that, of course, that we know that our friends behind us may not know. And one was the directive from the Division of Retirement to lower the actuarial assumed rate of return from 8.5 to 7.75. That increased the City contribution by about $40 million, that one thing alone.

And then the recommendation -- Middleman -- to lower the assumed rate of return to -- they recommended 6.9. The Board went with 7. That

cost another almost $40 million.
Those two things -- because market performance, since you've been in office, has been very good, not only for us, but for institutional investors nationwide. So we're making some strong returns and making up for lost ground, but, nevertheless, we've got a lot of catching up to do.
THE MODERATOR: What does the -- because I'm trying to catch this, and I know I want to be clear. What do you believe as to current employees -- as the Board, what do you believe ought to be done, and if done, would result in an acceptable -- a plan that would be acceptable to the Council? What are you saying that the Board thinks ought to be done?
MR. KEANE: Well, it's going to wind up being a package, so we've got to get all the pieces here.
THE MODERATOR: Okay.
MR. KEANE: You know, we've got the pie shell. We need to decide what the filling's going to be before we can serve it. So we need to know all the pieces.
THE MODERATOR: Everybody knows that this is

all part of -- but I'm talking about now what is the Board's suggestion. The City has said, "This is what the task force said. These are the changes we want to make." They've used the ten-year differentiation.
Respond to that. What do you think about the idea of a plan that has different -- that recognizes a differentiation at the earlier third of your career, as opposed to the later parts of your career?
MR. KEANE: For our current employees, it's imminently unfair because they have been paying on the higher schedule for their ten, nine, eight, seven, six, five, four, three, two, one tenure, wherever they're at. So that's an issue. And to overcome that issue, we would recommend to the Board the increased use of chapter funds.
THE MODERATOR: All right.
MR. KEANE: We don't want to pull the rug out from under our employees.
THE MODERATOR: So --
MR. KEANE: Not going to.
THE MODERATOR: So in lieu of that proposal, you're suggesting that there be greater contribution made to the plan by the Board?

MR. KEANE: Right. If that has an actuarial reduction of X percent, you apply that same factor and then it's a wash.
THE MODERATOR: Questions on this side? Whoever.
MAYOR BROWN: I just want to say --
THE MODERATOR: Go ahead, Mr. Mayor.
MAYOR BROWN: One point, let me make a point here --
THE MODERATOR: Yeah.
MAYOR BROWN: -- that -- one of the things you said earlier about Council rejecting the original plan, which you agreed to, even though they rejected it --
MR. KEANE: Uh-huh.
MAYOR BROWN: -- but then the issue of fairness and justice. So I want to be clear. I want to be fair to the City employees, police and fire, and I believe in justice. I believe it's just and noble and I think it's morally right for a City to provide a retirement plan for its men and women who serve and protect us every day. I think that's very important.
MR. KEANE: We absolutely agree with you, Mayor.

MAYOR BROWN: I'm going to be fair and I believe in justice. And so I just, you know -- but we have a -- I mean, we have a plan up here that I think the task force did a great job in putting together, an opportunity for us to solve this problem. And I think -- and, yes, we'll have a package, but you have variables within those packages to make a whole package. And I'm trying to get -- to figure out what else other than what you just named that we can talk about.
So Mr. --
MR. HAND: Okay. May I ask a question or --
THE MODERATOR: Go back to Chris.
MR. HAND: -- two? Sure. Just to sort of be specific on some of the aspects we brought up, as to, for example, the DROP proposal, is it the Board's position that it would not consider any change in what is right now a guaranteed 8.4 percent rate of return? In other words, setting aside for a moment the issue of COLA and going to DROP, the Board's position is that DROP should continue with the guaranteed 8.4 percent rate of return and not change that to the actual rate of return for current employees?
MR. KEANE: I haven't addressed that yet,

Chief. We --
MR. HAND: Okay.
THE MODERATOR: Well, let's --
MR. KEANE: We talked about --
THE MODERATOR: Okay. I understand.
MR. KEANE: -- two other things.
THE MODERATOR: Okay. Well, let's talk about that for a moment, just see where we -- let's talk about the proposed DROP. And I remember these discussions in the MSA. So let's talk about the proposed rate. What right now is -- that there is a -- there is a maintained rate. We all agree on that.
And this proposal says that we would replace the maintained rate, but we would have a range within -- it would perform -- you wouldn't -- you couldn't drop below the floor, and you couldn't rise above the cap, but that we would take actual performance in that. Tell me what you think about that idea.
MR. KEANE: It's certainly worthy of additional review and discussion. The --
THE MODERATOR: So your answer on that is just not --
MR. KEANE: Well, we haven't resolved that

yet.
THE MODERATOR: I understand.
MR. KEANE: But on the guaranteed 8.4 percent rate of return, a lot of misinformation circulates on that too.
THE MODERATOR: Sure.
MR. KEANE: The DROP money, for accounting purposes, is held in a separate account. And so when you apply the fund earnings to that segment, now you have some money over here that we use to pay 8.4. Like last year, we made significantly more than 8.4. And so it's sitting over there to help pay in when we made less than 8.4, but, you know, it's not ever been presented that way to the people, but folks here at the table know that.
THE MODERATOR: Right. We talked about that. And one piece of good news is that this year numbers are better than last year's numbers --
MR. KEANE: On track to be much better, thankfully.
THE MODERATOR: Yeah. Right.
Chris, other questions you had about this?
So we -- so the DROP conversation is an open conversation?
MR. HAND: Right.

MR. KEANE: Correct.
THE MODERATOR: You've --
MR. HAND: We've gotten some perspective on the employee contribution. What about on the issue of COLA, which is sort of the -- you know, of the four tranches of benefits, here is another one that we've moved some significant proposals on.
And I will tell you, just to answer Senator Smith's earlier question as to current employees, I think City Council's made it pretty clear, especially those who did not vote in favor of last year's agreement, that that's very important to them, that there be -- to use their term, there be some additional shared sacrifice by current employees in the overall retirement benefit.
So, again, that's no mystery. That's been reported in the newspaper and in other outlets. They've been very clear. And, of course, the task force was equally clear on that as a part of the overall retirement package.
THE MODERATOR: Back to you on COLA.
MR. KEANE: On COLA, a reduction -- I believe the task force had a different cutoff date for affecting the new people -- the current people on

that change.
MR. HAND: This is exactly --
MR. KEANE: You-all have a 14-year -- 16-year, something like that, for people on the COLA --
MR. HAND: This is exactly what the -- was in the task force report, so --
MR. KEANE: Okay.
THE MODERATOR: All right. Tell me what your reaction is to the -- to the COLA proposed change.
MR. KEANE: It could well be acceptable as part of an overall --
THE MODERATOR: I understand.
MR. KEANE: -- package.
THE MODERATOR: So the COLA -- now, so that I make sure that I'm clear on this so we later don't have any argument, for purposes of the COLA, would you -- is the ten-year differentiation appropriate?
MR. KEANE: Oh, yes.
THE MODERATOR: Okay.
MR. KEANE: That people have already paid, our current people, is a big hangup, but there can be ways to work some of these proposed changes into a new pension benefit structure.

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THE MODERATOR: So as to the COLA and as to the DROP proposals that are there --
MR. KEANE: Uh-huh.
THE MODERATOR: -- those are within the realm of --
MR. KEANE: Subject to meaningful change.
THE MODERATOR: Okay. Without going to the exact number, if there is an increase in employee contribution, you agree that the sense of it was that fairness dictated that that employee contribution increase, at least in part, be linked to the reinstatement of the -- what I'll call the rollback in salary that happened, I think, 2 -- it was a 2 percent rollback. It was two years before the MSA, I think, so --
MR. HAND: 2010 for fire --
THE MODERATOR: Right.
MR. HAND: -- and 2012 for police.
THE MODERATOR: Right. Right. I mean, that was kind of the conversation, is that that would happen in the context of --
MR. KEANE: First.
THE MODERATOR: -- a rollback wouldn't go into effect until a reinstatement of the lost benefits went --

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MR. KEANE: Right.
THE MODERATOR: -- into effect.
City remembers it that way also?
MR. HAND: Correct. Yeah.
THE MODERATOR: All right.
MR. HAND: There was a -- there would be the restoration and then --
THE MODERATOR: Then the additional kick-in of the contribution --
MR. HAND: -- after that --
MR. KEANE: Going forward with future increases.
THE MODERATOR: All right.
MR. KEANE: We're prepared to make additional contribution to help get over this temporary rough spot in the road.
THE MODERATOR: And that's what I was getting at. As I understand what the Board's suggesting, is that you would put in an additional pool of money -- if I use the word incorrectly -- you would -- you would offset the immediacy of that contribution by putting in chapter funds until such time as that employee contribution kicks in, meaning that if it happened next year, you guys would bridge the gap in the year between or --

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whatever the number turns out to be. You guys know what your -- when the -- when the reinstatement's going to take place. My sense of it is that that may be in next round of negotiations, from what I'm reading and hearing.
MR. KEANE: We would have a definite time period. It's not going to be forever and ever.
THE MODERATOR: But you'd have -- you would be willing to put in some funds for an interim contribution --
MR. KEANE: Yes, sir.
THE MODERATOR: -- until such time as the employee -- and to offset the immediate impact on the employees?
MR. KEANE: That's correct.
THE MODERATOR: All right. Now, let's go to the fourth thing up there, which is the final average compensation.
MR. HAND: And can I just --
THE MODERATOR: I'm sorry. Go ahead.
MR. HAND: I just -- it'd just be helpful to clarify that, John. So the Board would be willing to put in, I guess, part of what is currently going to enhanced benefits, roughly the half of the chapter funds that are currently going into

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that, to help sort of bridge the gap until such time as employee pay was restored to match whatever increased contribution was required; is that -- am I interpreting that correctly?
MR. KEANE: You're interpreting that correctly, with the limitation that --
MR. HAND: Sure.
MR. KEANE: -- we're not going to sit here and say, "We're going to wait six years before" --
MR. HAND: Of course.
MR. KEANE: -- "we give them a raise."
MR. HAND: Of course. Yeah. But that -- but, in fact, that would -- those would be inextricably linked, so to the extent employees were to receive at some point a restoration of that previous pay cut, that additional Board contribution would end at that time; is that --
MR. KEANE: Right.
MR. HAND: Is that right?
MR. KEANE: I believe it's when, not if, though; right?
MR. HAND: Well, I don't want to prejudge Mr. Chatmon and the work he does.
MR. KEANE: Right.
MR. HAND: I'm not here to cut his legs --

MR. CHATMON: One --
MR. HAND: -- out from under him --
MR. CHATMON: One side of the table.
MR. HAND: -- but I just want to be clear on, in your mind, mechanically --
MR. KEANE: Yes.
MR. HAND: -- how that would work.
MR. KEANE: That's how --
THE MODERATOR: But to make that fair, even back when we were having the MSA, the discussion was there would be a point in time in the foreseeable future when the economy and the other kinds of things, the savings that have taken place, that the -- it was never contemplated that the employee rollback would be forever, that everybody realized that was an -- not an emergency, but it was something that was necessary. Both the employees and the City knew that there were things that had to be done a couple of years ago that were critically important, given where the budget was.
MR. CHATMON: Senator, I will just interject one point. Since neither the police and fire -- since only the police and fire is here and neither are the FOP or Local 122, it's kind of hard to

make that --
THE MODERATOR: I agree with you. I understand that. I'm just saying that the conversation was -- I think what John's saying is "We're not going to do this" --
MR. CHATMON: Forever.
THE MODERATOR: -- "forever, and we're not going to do this for a time that is unreasonably lengthy."
Once again, everybody here realizes you have to collectively bargain with them and they have to collectively bargain with you for those issues, but what I think he's saying is the clock won't run forever. I think -- but I -- but as I say, when we were having the MSA, the conversation was that way. It wasn't anticipated it would run --
MS. LAQUIDARA: Well, it was --
THE MODERATOR: -- forever.
Yes?
MS. LAQUIDARA: It was two years in the MSA.
THE MODERATOR: Yeah. I'm -- we had a --
MS. LAQUIDARA: So we did negotiate a number --
THE MODERATOR: Right.
MS. LAQUIDARA: -- certain.

THE MODERATOR: All right. Now, let's go to --
MR. HAND: Of course, the --
THE MODERATOR: -- where I was --
MR. HAND: And, of course, the City's financial position is going to depend a lot on how much progress we're able to make in these discussions --
THE MODERATOR: Sure.
MR. HAND: -- so --
THE MODERATOR: Sure. And by that, to make it kind of clear, the better you do on some of these things equates to the better position, financial position, in terms of contribution that you have to make. Therefore, employees have an interest in seeing the contributions by the City not be such that they are in lieu of other kinds of money that would be available; am I right? Everybody got that?
MR. HAND: Any dollar saved through pension reform --
THE MODERATOR: Got it.
MR. HAND: -- is a dollar --
THE MODERATOR: All right.
MR. HAND: -- that can be invested somewhere

else, but --
THE MODERATOR: Now, my question was, final FAC, final average compensation. Right now it's -- last 24 months, the proposal is five -- or 60 months -- I'm sorry -- with the caveat that there is a seal -- excuse me -- the law would require that you couldn't go below what somebody had already earned, but what did we do about this in the MSA, folks?
MR. KEANE: Agreed to it.
THE MODERATOR: To the 60 months?
MR. KEANE: (Nods head).
THE MODERATOR: That's what I remember.
MR. HAND: For new employees, right.
THE MODERATOR: For new employees.
MR. HAND: Uh-huh.
THE MODERATOR: Now, what did we do as to current employees? We didn't do it?
MR. KEANE: (Shakes head).
MR. HAND: Right.
THE MODERATOR: All right. Talk about current employees at any level. This says ten years of service. The recomputation, is there a point at which it is reasonable to say that's early enough in a career that they can more than

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make it up because they've got 25 years left or 20 years left in this case, or maybe not at all? What are your thoughts?

MR. KEANE: Well, you know, we had 94 hours of meetings down there last year and --

THE MODERATOR: Yes, sir.

MR. KEANE: -- we agreed to leave current employees out of the mix. I've asked the actuary to give us a cost factor of the reduction in cost on these changes, and we hope to have that ready this afternoon. That's what -- things I'm going to be doing this afternoon --

THE MODERATOR: Okay.

MR. KEANE: -- is having conference with our actuary. And then we'll have a cost factor on all of the other proposals, not only from this page, but from Page -- I believe it was -- where is the other page?

THE MODERATOR: We're looking now at their proposal or --

MR. KEANE: Yeah.

THE MODERATOR: -- the actual task --

MR. KEANE: Yeah.

THE MODERATOR: -- force --

MR. KEANE: Yeah.

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THE MODERATOR: -- report?

MR. KEANE: Yeah.

MAYOR BROWN: Proposal.

MR. KEANE: Yeah. City proposal too.

THE MODERATOR: What page?

MR. KEANE: We've got to get a -- it's here. City Proposal 2 is --

THE MODERATOR: Okay.

MR. KEANE: Yeah. So we're going to have the actuary report, hopefully, this afternoon so that we can have a better indication of what -- if you make a concession and the City costs go down 10 percent, you know, that's significant.

THE MODERATOR: Right.

MR. KEANE: That's shared sacrifice, as the term is applied.

THE MODERATOR: Right.

MR. CHATMON: Senator?

MR. KEANE: That's what we're trying to do.

THE MODERATOR: Go ahead.

MR. CHATMON: The shared sacrifice, I think, is an important discussion, which is why we're really all at the table, but with that having been said, there was one concern I had, just making sure we all understand what the elements are.

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And, Mr. Keane, to be clear, let me make sure that I understand and I'm stating this correctly. Employees contribute currently 7 percent to the pension fund as far as from their salaries?

MR. KEANE: From their salary.

MR. CHATMON: Okay. The supplement, however, that you mentioned before, that's where the 4 percent comes from, and that's from the fund itself?

MR. KEANE: That's from the chapter funds, yes.

MR. CHATMON: Okay. So, in essence, when we're talking about shared sacrifice, are we not speaking -- when you are addressing supplementation, you're really speaking -- coming -- bringing funds from the fund itself, the chapter funds and investments?

MR. KEANE: No. We're talking about from the chapter funds.

MR. CHATMON: Okay. Just the chapter funds.

THE MODERATOR: Right. And I think what -- a percentage of that being that that -- in essence, that enhanced -- that they were willing to treat that as an enhanced benefit and, therefore, use those monies because, actually, the employee's not

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having to make up what they would to make this work, what the employee would have otherwise had to make up out of individual contribution. Am I -- have I missed -- is --

MR. HAND: I took it as the fund saying they want to try and hold employees harmless in terms of the impact on their paycheck --

MR. KEANE: Exactly.

MR. HAND: -- is that accurate?

THE MODERATOR: Correct. All right. Now, so as to the COLA, you guys are open to this, the Board?

MR. KEANE: Open.

THE MODERATOR: And as to the DROP, you're open to the proposal of having a range based on performance, within limits, down and upward?

MR. KEANE: It's open for discussion, both of them.

THE MODERATOR: And the contribution rate, you're open to increasing employee contribution linked to reinstatement of benefits -- wages?

MR. KEANE: No. No. No.

MR. HAND: Linked to holding the employees harmless, I think --

MR. KEANE: Yeah.

MR. HAND: -- would maybe --
MR. KEANE: Yeah.
MR. HAND: -- be the way --
MR. KEANE: Yeah.
MR. HAND: -- to put it.
THE MODERATOR: All right. I got it.
MR. HAND: Uh-huh.
THE MODERATOR: But the mechanics would be the one --
MR. HAND: Right.
THE MODERATOR: -- that I was --
MR. KEANE: Right.
THE MODERATOR: Okay. I got it.
MR. HAND: I just don't want to confuse this with --
THE MODERATOR: And the final compensation, you're going to look at actuarial impact?
MR. KEANE: Exactly.
THE MODERATOR: But, again, would you -- would you do that on the ten-year basis, as opposed to -- so it would be --
MR. KEANE: Right.
THE MODERATOR: So there would be -- for those who are within the first ten years, it is possible that the Board would be willing to do --

make some of these changes?
MR. KEANE: Correct.
THE MODERATOR: As part of an overall package?
MR. KEANE: Correct.
THE MODERATOR: All right. And those would all be things that we have done that you would do here that were beyond what we did in the mediated settlement?
MR. KEANE: Beyond.
THE MODERATOR: Okay. With --
MR. KEANE: Or in concert with.
THE MODERATOR: Right.
MR. KEANE: And some of each and a pinch of that, yes.
THE MODERATOR: Okay. With that, back to you, Chris. Those changes, if those changes were to be made, would those -- could those meet what the City's goal has been, to show increased -- and I use the term "shared sacrifice" because that's the term I was using, whatever the right term is -- increase employee contribution by people currently working in the first third of their career?
MR. HAND: Well, what I would say is the task

force sort of framed up what it viewed to be the significant issues for current employee involvement, shared sacrifice. We have moved those. To the extent that those are the issues we're now discussing, I think we're heading in the right direction.
Obviously, everything's a question of specifics, but the task force framed up what the key issues are for current employee involvement. We're still talking about those issues, so we're, I think, headed in the right direction.
THE MODERATOR: John, will you, tomorrow morning, have a comprehensive proposal after you talk to your actuaries, back to the current employee pension design?
MR. KEANE: Yes, sir.
THE MODERATOR: And you anticipate it being along the lines we've just discussed?
MR. KEANE: Anticipate, yes, sir. It's a good word.
THE MODERATOR: I understand. Nobody is locked into anything.
Okay. And you anticipate that part of the way we would offset the immediacy of the contribution will be that the Board will maintain

or increase or enhance, whatever term you guys want to use and arrive at yourselves, for some set period of time?
MR. KEANE: Yes, sir.
THE MODERATOR: Realizing that that set period of time does not necessarily link itself to a -- but everybody's going to know what that set period of time is as they go into their -- okay.
MR. KEANE: Those that know will know.
THE MODERATOR: Okay. I got it. All right.
Back to the City, though, for a moment. We're on No. 3. We know we've still got some -- and we know on No. 4 for the governance. Now we've got this.
What I'd like to do is -- because it seems to me, guys, that there's a generalized acceptance of the idea of some availability of some additional things being done for current employees beyond what was in the MSA. Those things which have been stated would be additional.
Now, with that, I'd like to see us have a quick discussion this morning, realizing today is a short day, of where we are on the unfunded liability issue. This is the design issue. Let's go to the unfunded liability issue, and I'd like

to hear -- I'm sorry?

MR. HAND: I suggest we break for about five minutes and then do the --

THE MODERATOR: We'll take a five-minute break.

John, any problem with that?

MR. KEANE: Oh, no.

THE MODERATOR: Five-minute break.

(Recess from 10:10 a.m. to 10:20 a.m.)

THE MODERATOR: Madam Court Reporter, show we're back on. Thank you.

Chris, we're prepared to go. I know the mayor had some other stuff, apparently, to go to.

MR. HAND: Sure.

THE MODERATOR: So I'm ready to go forward. What I wanted to do now -- because I think we have -- everybody kind of knows we've got several things now that are getting much closer to a potential resolution. One of the things obviously talked about, both -- last time when we all talked -- clearly addressed in the -- both in the summary and in the actual body of the deliberations and recommendations -- excuse me -- recommendations of the task force, also talked about in the deliberations of the City Council, is

the issue of kind of what I call kind of Silo No. 4, which is the unfunded liability issue.

And I'd like -- I think what I would like you to do is reiterate -- because it's been a week --

MR. HAND: Sure.

THE MODERATOR: -- since we touched on it, I'd like the City to open that conversation, Chris.

And then I'd like -- John, I want your -- kind of where the Board is on this. And I know that the Board itself has some ideas addressing issues of decreasing the liability exposure. And so I want to hear where we are on that conversation, please.

MR. HAND: Sure. Just to reiterate what the City sort of proposed in unfunded liability last week -- there we go. We obviously talked about the growth in the unfunded liability over time. It's increased by more than $1.2 billion since approximately October 2003.

The task force made several recommendations as it relates to unfunded liability. One, obviously, the City continue to pay its ARC, its actuarially required contribution, each year, also recommended that the City make a supplemental

payment each year of the difference between the ARC and 200 million, which is about -- between 40 and 60 million annually, until the fund reaches an 80 percent funded status, and that the dedication of half -- the half of the chapter funds that currently go to enhanced benefits go to unfunded liability until the fund reaches an 80 percent funded status.

So we moved this proposal on unfunded liability, basically saying the City will make an additional payment -- unfunded liability payments, subject to appropriation, until the plan is at least 80 percent funded, if the parties agree on Proposals 1, 2, and 3, in other words, if we've got agreement on new employees, current employees, and governance, and if the PFPF agrees to dedicate its half of State chapter funds. And that's the amount which is approximately $4.5 million right now that currently goes to enhanced benefits, if they would agree to dedicate that half of State chapter funds to an additional unfunded liability payment, again, until the plan is 80 percent funded.

So if the City is roughly putting in $40 million extra a year, the fund would agree to put

in its additional four and a half million dollars each year, with those two combined streams of funding continuing until the plan reaches an 80 percent funded status, which under the current projections is projected to be in about Fiscal Year 2028, 14 years from now, given an assumed return of rate of 7.0 percent.

THE MODERATOR: Let me interrupt you because I know it came up the other day and we passed over it because it really wasn't as critical then as it is right now in my mind. It's all in the language, I know, but you have a provision here that says: Payment subject to appropriation.

I know you discussed, well, you can't -- and I'm paraphrasing -- and, Cindy, correct me if I'm paraphrasing incorrectly -- but you can't lock future commission appropriations into -- lock them into appropriation decisions or some such idea.

On the other hand, you have: Subject to appropriation. What happens -- I just want to hear what everybody's --

MS. LAQUIDARA: Sure.

THE MODERATOR: -- idea would be. What happens if the appropriation isn't made for one or more years? What happens to the fund, and what

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happens to obligations of both employees and the Board?

MS. LAQUIDARA: Okay.

THE MODERATOR: So --

MS. LAQUIDARA: Could I --

MR. HAND: Yeah.

MS. LAQUIDARA: Because on --

MR. HAND: Sure, on the --

MS. LAQUIDARA: -- the particular --

MR. HAND: On the legal issues.

MS. LAQUIDARA: -- issues of legal, I'm --

THE MODERATOR: And, actually, somebody sent me an opinion on this --

MS. LAQUIDARA: Okay.

THE MODERATOR: -- to look at.

MS. LAQUIDARA: Okay. And first let me reiterate that, of course, the City and the fund would be following the law by just meeting the ARC; okay? So I don't want any issue that neither the City nor the fund, post ARC, would be violating the law.

Second is it's not just that, but the issue of binding future councils. It's a fact that we have outstanding bond obligations. We have no dedicated source of revenue. If we did, we

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wouldn't be here; right? I mean, we were broke; that's why we're here.

And so you can't jump the other bond issues, which are covenants to pledge legally available revenues with a firm commitment that can't be broken because you can see where, if you're a bond holder and you're looking to pay and you have a rating based on that -- so it's that combination of binding and the fact that you have existing debt that makes you have to look each year and see what you have.

And then Chris has the substance of, "Okay. Let's say it is a tough year" --

THE MODERATOR: Okay.

MR. HAND: Sure, but let me --

THE MODERATOR: Then let's -- I think that's a reasonable question --

MR. HAND: Sure.

THE MODERATOR: -- that's been raised to me by --

MR. HAND: Sure.

THE MODERATOR: -- any number of people. What happens if "subject to appropriations" --

MR. HAND: Let me --

THE MODERATOR: -- doesn't happen --

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MR. HAND: -- address that. And what I think is -- John raised an entirely reasonable point last -- or when we first --

MS. LAQUIDARA: Uh-huh.

MR. HAND: -- did this, is, well, what happens if the City doesn't put in the extra money in a particular year because we're in an economic downturn or trough and otherwise there's pressure on the finances?

Let me just be clear. Where we say here the parties agree on Proposals 1, 2, and 3, those sort of amount to prerequisites for the City to agree to put in any extra money each year in terms of --

THE MODERATOR: "Extra" meaning above the ARC?

MR. HAND: Above the ARC, in terms of paying down unfunded liability. Where I think there is some accountability for both sides is -- let's just assume for the sake of argument we're able to reach agreement on the City putting in extra money each year and the fund putting in those enhanced benefits each year. I think, as with any contract, for any given year that the City is not able to put in its extra money toward the ARC, the fund would therefore be relieved of its obligation

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to put in those extra monies toward the -- paying down the unfunded liability, as well.

So to the extent that John raised the issue of, you know, well, what happens to us if you can't appropriate those extra monies in one particular year, again, there's a dual obligation here. And the obligation on both parties to put in the extra funding would disappear if the City were not able to appropriate the extra money toward unfunded liability in a given year. So the answer to that question is -- how do we kind of have accountability on both sides? I think it's in that extra unfunded liability payment, if that answers your question.

THE MODERATOR: Okay. John, give me your -- this is a -- the proposal that was presented last week -- and I know you've had a little -- a little time, but we haven't really focused much on it. I'd like your kind of -- I'd like to hear from the Board as to their -- lack of an artful term -- gut reaction. And then also do you have ideas separate and above this for addressing issues of unfunded liability? I know you had -- you had talked during the MSA about some ideas that you -- that the Board wanted to look at.

MR. KEANE: The answer is yes to all three of those questions, Senator.

THE MODERATOR: Okay.

MR. KEANE: One, as the learned general counsel just pointed out, she's talking about bond covenants and things that we've got to pay. During the task force discussions, one of our senior distinguished citizens, Mr. Cannon, he said over and over again we have to have a mechanism to hold the City's feet to the fire to make sure they make these appropriations and -- he said at least half a dozen times, if not more. And we have the chairman back here, who is nodding affirmatively.

While we don't believe the City would engage in untoward conduct, we look around us, and in -- pension reform in New Jersey last year required the employees to make an additional contribution, and the State was going to make an additional contribution in this year's budget. They took the money from the employees, and the legislature decided not to appropriate the money.

Now, the suggestion that the chief just advanced, if the City doesn't do it, then we quit paying that, that's -- you know, that's possibly one thing. We're not looking for an escape hatch.

We're looking for the hammer on the -- on the nail to get this money in to get this problem resolved.

We currently have a contract with the City. It runs until 2030. So we can amend that and have this language in there that would then -- you know, when the dump truck of money backs up and dumps it out, it could start being apportioned, you know, first to the bondholders. You know, something's got to go into payroll and -- "Look here, we" -- "this is the wad we have to give to police and fire. Let's get that in a sack and get it out of here and get it over to them."

But there's -- in the budget, our City fathers and mothers have great leeway to decide what they want to fund and what they don't want to fund. And if you don't have a requirement that they fund this, it will -- it will wind up -- if you believe that history repeats itself, it will wind up like a lot of projects --

THE MODERATOR: Well --

MR. KEANE: -- not only here in Jacksonville, but in other places.

THE MODERATOR: Let me -- I want to -- I want to advance a question for you, but I want you to react, first of all -- tell me about the -- .3,

which would -- in the event that one, two, and three were agreed upon, and in the event the additional funding -- "subject to appropriation" language, there was a -- it's kind of a correlative of "you don't pay, we don't pay" situation. Assume all that for a moment. Is the Board prepared to dedicate half of the chapter funds to the unfunded liability payment until the plan is 80 percent funded?

MR. KEANE: Not right now.

I'd like to ask Chief Hand -- in the City proposals, did Middleman give you-all the actuarial savings on all the proposals that you-all advanced?

MR. HAND: Yes.

MR. KEANE: Would you send them over to me? I can send them up to -- and that will --

MR. HAND: Uh-huh.

MR. KEANE: -- speed him on in his thing.

MR. HAND: Sure. After consultation with counsel, sure, we'd be happy to talk about that.

THE MODERATOR: Okay. If we could do that, guys -- you know we've got kind of a tight schedule here, so let's try to get -- but when you say, "Not right now," I also don't see you

categorically saying "We're unwilling to do that." If that -- if our guys say it can be done, it's something that the Board would consider?

MR. KEANE: In searching for comprehensive pension reform, we never say never about anything. You know, we're willing to --

THE MODERATOR: That's music to my ears.

MR. KEANE: -- have all -- oh, it's great tones.

THE MODERATOR: All right.

MR. KEANE: We're able to have lots of discussions.

THE MODERATOR: On Proposals 1, 2, and 3, what are your reactions? And those are 1, 2, and 3 on Page --

MR. HAND: Well, these are -- these are the -- these are the subjects, obviously, we've already talked about.

THE MODERATOR: Yeah. 1, 2, and 3, I'm going to --

MR. HAND: Okay.

THE MODERATOR: That would be --

MR. HAND: New employees.

THE MODERATOR: -- new employees --

MR. HAND: Current employees.

THE MODERATOR: -- current employees --
MR. HAND: Governance.
THE MODERATOR: New employees we've reached agreement. Governance and current employees.
MR. HAND: Current employees.
THE MODERATOR: Got it. All right.
MR. HAND: So that is a -- reaching agreement, mutually satisfactory agreement, is a prerequisite before the City would agree to put in --
THE MODERATOR: I got it.
MR. HAND: -- additional dollars --
THE MODERATOR: I got it.
MR. HAND: -- into the unfunded liability.
THE MODERATOR: But if we could reach agreements on those, could this be done?
MR. KEANE: Well, we, in substance, reached agreement --
THE MODERATOR: On one.
MR. KEANE: -- on one.
THE MODERATOR: Yep.
MR. KEANE: And --
THE MODERATOR: Long way on two.
MR. KEANE: Long way on two. And we're in intense, good-faith discussions on No. 3.

THE MODERATOR: And you think you'll have a reaction to that tomorrow?
MR. KEANE: Yes, sir.
THE MODERATOR: And then you guys will be prepared to respond to him tomorrow from their proposal as it relates to that which I guess we're calling No. 3?
MR. HAND: Sure.
THE MODERATOR: Okay. John, you had also talked before. And so this is a two-way street. Are there other issues you're going to want considered, proposals that you're going to advance to address the issue of unfunded liability?
MR. KEANE: Exactly.
THE MODERATOR: All right. Tell us -- I know you --
MR. KEANE: Investments.
THE MODERATOR: All right. Tell me -- I know you don't have that in front of you right now. Will you have that with you tomorrow?
MR. KEANE: Oh, yes, sir.
THE MODERATOR: Okay. Are you prepared to do that, to give a copy of that to them today before we end?
MR. KEANE: I don't have it with me.

THE MODERATOR: Okay.
MR. HAND: And, John, is this the issue of investment authority?
MR. KEANE: Yes.
MR. HAND: Yeah. Okay.
THE MODERATOR: Right. Can we talk about that and get that --
MR. KEANE: Sure.
THE MODERATOR: -- on the table and --
MR. KEANE: We're looking to have --
THE MODERATOR: -- explain what your position is on investment authority?
MR. KEANE: Certainly. We want the same type of investment authority that the Florida Retirement System, the number four -- fourth largest retirement system, public retirement system, in the world, has. And if we had this increased investment authority, we would have had increased returns at a lower risk model, and part of this problem would have been solved.
We've asked the City Council for a number of years, not only for the Police and Fire Pension Fund, but the general employees has sought to have increased investment authority. And they have a uniform answer. "No."

THE MODERATOR: Let me -- let me understand a couple of things. First of all, on the additional investment authority that you seek, is that something that the City Council itself has, or does that have to go farther than that --
MR. KEANE: (Shakes head).
THE MODERATOR: -- because that -- are you satisfied that the Council has the ability to give additional investment authority?
MR. KEANE: Yes, sir.
THE MODERATOR: All right. What specific authority are you going to be seeking?
MR. KEANE: The use of increased alternative investment vehicles.
THE MODERATOR: Okay.
MR. KEANE: Exactly what the Florida Retirement System does. We would wind up hiring probably some of the same managers they use for the State Board of Administration, or other well-qualified managers after review by the new financial advisory council.
THE MODERATOR: What do you perceive is the advantage of that?
MR. KEANE: The advantage of it? It broadens the investment base and reduces the risk and

increases returns.
THE MODERATOR: All right.
MR. KEANE: Every major consultant recognizes this and has recommended it elsewhere where it has been adopted, including the learned members of the Florida Legislature adopted it for FRS. It's not something new. We're not --
THE MODERATOR: Generally --
MR. KEANE: -- into alchemy or anything --
THE MODERATOR: Yeah. I understand. No. Generally speaking, the -- one of the concerns that I remember from earlier conversations, generally speaking, is -- is concerns about -- you say reducing risk. I think anytime you -- the perception has been anytime you give additional investment authority, the question is does it reduce risk or does it, in fact, increase risk.
And I shouldn't speak for the City on this, because I -- but I do remember the conversation briefly. Could I hear kind of you-all's response to the conversations regarding increased investment authority to the Board as part of unfunded liability?
MR. HAND: Well, just to be clear --
THE MODERATOR: Response?

MR. HAND: -- on the history of this, so the task force decided ultimately not to make a recommendation on that point --
THE MODERATOR: One way or the other.
MR. HAND: -- wanting to leave that sort of recommendation ultimately up to the new Financial and Investment Advisory Committee once it was constituted.
Just so I'm clear -- because I think we have a fairly good sense of what your -- are these the changes that are memorialized in what I believe is Councilman Schellenberg's bill before the City Council right now, John? There is legislation pending that would impact the investment authority. Are these those changes --
MR. KEANE: I think they will be --
MR. HAND: -- as far as you know?
MR. KEANE: -- yeah. I know his --
MR. HAND: Yeah.
MR. KEANE: -- thing has been cut up several times.
MR. HAND: Got you. As far as you know.
MR. KEANE: As far as I know.
MR. HAND: Yeah. And I think at one point you made a presentation to the task force which

laid out some recommendations on authority changes. It would be those -- not trying to pin you down. I'm just trying to make sure I'm clear. It would be essentially those changes.
MR. KEANE: That's correct.
MR. HAND: Yeah. Okay.
MR. KEANE: And the task force was moving along towards supporting that. And then with the adoption of the financial --
THE MODERATOR: Investment committee?
MR. KEANE: They decided --
THE MODERATOR: Advisory committee?
MR. KEANE: They decided to wait for them.
THE MODERATOR: All right.
MR. BELTON: Senator?
THE MODERATOR: Yeah. Yes. Absolutely.
MR. BELTON: One of the things, John, I want you to be cautious of, having investment authority versus having investment knowhow is a very significant difference. Having the ability to invest in all kinds of things don't mean you invest in all of them. You've got to deal with it based on what the market is showing, based on what your actual policies are about, what you're trying to do, and protect your monies.

So if you look at it, your fund, as well as the general employees, did better than the State. And they had more opportunity to buy different things than you had.
So I don't think that is a real, real strong stance for you to talk about in terms of -- if you've got proper investment professionals and they're doing the job for you -- because you don't have a certain category to put your money in, there's no significance. If you're making the money in the thing that you're investing in with reduced amount of risk, why concern yourself with having this whole array of things that you can use?
At various points they may have an advantage to you, but that does not drive your numbers. It didn't -- didn't hurt your numbers.
THE MODERATOR: Well, let me -- if I remember the conversation we had about this -- and I just -- I want to see how you'd react to this.
MR. BELTON: Uh-huh.
THE MODERATOR: The conversation we had was, one of the ideas of a broader investment authority, what made it attractive was, yes, they're absolutely years in which you could have

very narrow authority, but if those are the years in which that narrow authority performs particularly well -- and I think in this case the market's returns within the silos that -- using the term -- within the area of authority that the Board now has, this has been a -- just as we felt -- just as we, meaning you guys, felt the dive disproportionally because of some narrowness of our investment authority, we have also, of course, felt the recovery, but the idea of increased investment authority is trying to spread out, okay, what happens in those years when the particular areas that we have are -- because, you're right, you could very well have a very narrow authority outperform a broad authority in any given year.

But over time I think the idea from the Board's perspective is that this would allow us to be immunized against some of the broader -- and I'm not staking your case. I'm kind of repeating the case as you explained it earlier. I mean, is it -- is it fair to look at a particular year, or are there times when broader authority might insulate you against -- just your thoughts.

MR. BELTON: Sure. Well, if you look at it,

broader authority versus the use -- we've got the authority to invest in certain things right now --

THE MODERATOR: Right.

MR. BELTON: -- and we aren't.

THE MODERATOR: Sure.

MR. BELTON: Okay. So you've got the authority. So the authority is not the issue. The issue is: What are you selecting? What are you doing?

If you look at the performance on both of the funds over the last five years, we've gone from somewhere, like, in the sixty-fourth percentile in performance all the way up to the first percent -- fifth percent for -- first five. We're number one --

THE MODERATOR: Right.

MR. BELTON: -- in a lot of them. And because of -- the size of theirs is the only reason they wouldn't rank in that top -- so it's a matter of performance from the managers that you've got. And those are the folks that we're paying.

The actual ability to invest in all kinds of things, that's not -- they can actually say, "By buying anything you want, just anything you want

to do." You can do that. But why do that? What you want to do is -- you're graded on what you actually invest in.

THE MODERATOR: Sure.

MR. BELTON: Can you make money in these particular things? And that's how we set this whole criteria up for the managers that we bring in.

THE MODERATOR: Sure.

MR. BELTON: And so we've got the same consultant. So what we're talking about is performance from those things that are working.

THE MODERATOR: What's the downside to broader authority in your -- I'm sorry. Cindy?

MS. LAQUIDARA: If I could --

THE MODERATOR: Yeah. Yeah. Sure.

MS. LAQUIDARA: Because there was a lot of agreement in this, but Pew Research had identified a distinction between FRS and the Police and Fire Pension Fund. I have no skill set in this area. I just recall -- the distinction, for what it was worth, was that, given the size of FRS, they could manage hedge funds and -- in a financially capable way -- that any firm, no matter how excellent the managers are, were not going to be equal to one of

the top largest public pension plans in the country. And so it was Pew's recommendation that one line of that additional authority, which my recollection was hedge funds, was not in. So --

THE MODERATOR: It was hedge funds that we're talking about with Pew?

MS. LAQUIDARA: Right. And so I just note that, for what it's worth. Again, I have no financial expertise, but in front of the task force, that was the issue that people were focused on, one part of what the PFPF wanted.

MR. HAND: I think one of the --

THE MODERATOR: Back to you.

MR. HAND: One of the concerns is -- I know that's been expressed -- and, again, not -- certainly not my skill set, either -- is that some of the alternative investments carried with them some more risks. So while there is certainly the potential for more reward, there's also the potential for more risk.

Some of those investments are ones that did not perform particularly well during the recent downturn. So that's the main concern I've heard, I think. And I don't know if you agree with that, John, but that concern's been voiced, that there is some increased potential reward, and that carries with it some increased potential risk.

THE MODERATOR: But, again, that -- if you have the authority, I think the point you're making is it's really not just authority, is the issue. It's also management. And, obviously, that's the responsibility of the Board in their hiring and in the people that they hire.

But react to the idea that somehow what you're seeking would increase risk to the fund and also react -- that the fund -- that the fund has actually outperformed some of the -- some of the counterparts that you -- like the FRS, at least in the recent past. And then, finally, I did read in the materials, obviously, the task force and the task force members had some real concerns about -- and I think it was based on a Pew report on hedge funds. But go ahead and kind of give the Board's view on all that and what you -- what you think that would -- how you think that would impact the success of the fund.

MR. KEANE: Having the authority to invest in a wide range of investment options doesn't necessarily mean you're going to do it; you know?

THE MODERATOR: Right. As you pointed out,

you have authority right now for things you're not doing.

MR. KEANE: That's right. But the general employees, for example, they can buy bonds that are rated B. We cannot. Now, that's just one little step down, but there is a significantly incremental larger return for that step down.

Bonds right now, most people wander around thinking bonds are safe. Bonds are the worst possible investment right now. But we're trapped into them because we can't go to some of these other places. And so that's what we have long sought and that's what we want.

THE MODERATOR: Okay.

MR. HAND: And I think -- just to clarify, I know some of the major new authorities would be, not only the -- in terms of the ratings of the bonds, also some areas like the ability to increase or maybe diversify international investments, and also investments in things like private equity and, to use the term of art, hedge funds --

MR. KEANE: Right.

MR. HAND: -- some of those leveraging kind of entities; is that -- is that, generally

speaking --

MR. KEANE: We're not much interested in hedge funds --

MR. HAND: Right.

MR. KEANE: -- because they come in. They open their briefcase. They put your check in it. And they say, "We'll give you some reports somewhere down the line."

MR. HAND: Right.

MR. KEANE: We're not interested in that.

MR. HAND: Right.

MR. KEANE: We're on the J. Edgar Hoover plan there. "Watch the border."

MR. HAND: Right.

MR. KEANE: "Don't let them get into the border." So we don't want -- not interested in hedge funds.

THE MODERATOR: I would remind you this is in the Sunshine.

MR. KEANE: That's fine.

THE MODERATOR: Okay.

MR. KEANE: Fine with me.

The private equity, as Chief Belton has pointed out, we share the same investment consultant. Their recommendation is -- their

long-range view is that private equity is going to have the largest return going forward in the next ten years. We have exactly zero invested in that.

THE MODERATOR: Okay.

MR. KEANE: And the general employees was interested in getting into private equity also. In 2011-399 --

THE MODERATOR: Will you have -- will you have a proposal specifically tomorrow on the increased investment authority?

MR. KEANE: Generally, yes, sir.

THE MODERATOR: Okay. I want to kind of recap where we are, then, see that -- so that I kind of give everybody their marching orders for tomorrow morning because we have a morning session tomorrow and an afternoon session tomorrow. Everybody understands that?

MR. HAND: Ten to twelve and two to, I think, five.

THE MODERATOR: Everybody understands that? Okay. So I'd like to go back and -- one of the things we're going to revisit tomorrow is governance. I still am looking for -- and I will work -- I will dedicate myself to finding a way out of the Category 3 problem. What I -- what I think is that everybody is saying "I want something I can live with by which we don't sacrifice" -- or "we don't concede the other side is correct on certain issues, but we're all willing to kind of live in the kind of -- PFF that we've had on this issue, that we could all live with."

So I'm going to try to focus on having something -- I may come back and use my own moderator's -- having read all these plans and having read Klausner's recent one, heard your responses, and see if I can come up with something that you can -- guys, that ought to be something you can fix.

We're still back on you. Tomorrow we would like to hear from you more specifically about --

MR. HAND: Governance.

THE MODERATOR: -- governance. And the heart of governance right now is four. Ten, I don't think, was a big deal. Ten, I think, was just an agreement, that that really probably was language that was superfluous and caused more --

MR. HAND: No. The City --

THE MODERATOR: -- problems than it was worth.

MR. HAND: The City will have a counterproposal on governance tomorrow.

THE MODERATOR: New employees is kind of your turn -- I mean, current employees is kind of your turn tomorrow on the new proposal that they put in front of us. And you saw the -- and you can add anything or -- I mean, anything you want to do, but I need to get that out in front of everybody tomorrow because these two hinge on each other.

And then I need your reaction to the unfunded liability, realizing that one, two, and three -- one is already done. Two and three are much closer than we've been before -- and particularly the willingness to pay the chapter fund -- and with realizing -- I think everybody's in agreement that the "subject to appropriation" will be some sort of bilateral provision by which -- in any time in which the appropriation were -- immediately the other obligation -- the obligation of the other would terminate for that particular funding period.

MR. HAND: In other words, the obligations are tied together.

THE MODERATOR: They're tied together. You don't make the "subject to appropriation"; they

don't pay their -- whatever their agreed-upon end.

And then you want to bring in a proposal tomorrow about increasing investment authority.

Is that where we are, ladies and gentlemen?

MR. KEANE: It is. And --

MR. HAND: Yes. That sounds correct. Yeah.

MR. KEANE: -- we'll get the --

THE MODERATOR: And we start at ten in the morning.

MR. KEANE: Middleman.

THE MODERATOR: I'll have a Paragraph 3 proposal to start us on. I'll have that, get that out of the way. Getting that out of the way, then four, we'll turn to you.

Then when we get off of that, I'm going to go back to unfunded liability, John, which will come to you; all right?

Everybody think that's a reasonable way to go?

MR. HAND: Yes.

THE MODERATOR: All right. Anything else that I haven't brought up today for the good of the order that you think would advance us?

Madam Court Reporter, make sure that it reflects that tomorrow we start at ten o'clock.

Ladies and gentlemen, make sure that we post the times appropriate. Tomorrow is a ten o'clock and a two o'clock start. We're scheduled to go tomorrow until, I think, five.

The next two days, we have the possibility of going later evenings. I'm hoping we don't even have to have those. I'm optimistic.

And then Friday I am absolutely unavailable because I'm -- my son is graduating from law school after some difficult travails in his health, which our family is all going to be there for that occasion, come hell or high water. And none of you are paying what the divorce would cost me if I did not attend.

So with that, show that we are concluded for this morning's session.

(The meeting was concluded at 10:51 a.m.)

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CERTIFICATE

STATE OF FLORIDA)
COUNTY OF ST JOHNS)

I, Karen Adair Ruiz, Registered Merit Reporter, Florida Professional Reporter, certify that I was authorized to and did stenographically report the foregoing meeting and that the transcript is a true and complete record of my stenographic notes.

I further certify that I am not a relative, employee, attorney, or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorneys or counsel connected with the action, nor am I financially interested in the action.

Dated this 25th day of May, 2014.

Karen Adair Ruiz

KAREN ADAIR RUIZ
Registered Merit Reporter
Florida Professional Reporter

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