



SUMMARY TO THE REGULAR BOARD OF TRUSTEES MEETING

Friday, January 19, 2018

9:04 A.M. – 10:42 A.M.

City of Jacksonville Police and Fire Pension Fund
1 West Adams Street Suite 100, Jacksonville, FL 32202
Richard "Dick" Cohee Board Room

The next regular Board of Trustees meeting will be held February 16, 2018 at 9:00 A.M.

Present

Lt. Chris Brown, Chair
Willard Payne, Secretary
Cpt. Michael Lynch, Trustee
Nawal McDaniel, Trustee
Richard Patsy, Trustee

Guests

Mark Muchowicz, JSO
Randy Wyse, President, Jacksonville Association of Firefighters
Paul Barrett, Treasury

City Representatives Invited

Greg Anderson, City Council Liaison

Staff

Timothy H. Johnson, Executive Director- Plan Administrator
Steve Lundy, Assistant Plan Administrator
Joey Greive, Fund Treasurer
Pedro Herrera, Fund Counsel
Lawsikia Hodges, Office of General Counsel
Dan Holmes, Summit Strategies – via Webex
Pete Strong, Fund Actuary

Notice

Any person requiring a special accommodation to participate in the meeting because of disability shall contact Steve Lundy, Assistant Plan Administrator at (904) 255-7373, at least five business days in advance of the meeting to make appropriate arrangements. If any person decides to appeal any decision made with respect to any matter considered at this public meeting such person will need a record of proceedings, and for such purpose such person may need to ensure that a verbatim record of the proceedings is made at their own expense and that such record includes the testimony and evidence on which the appeal is based. The public meeting may be continued to a date, time, and place to be specified on the record at the meeting. Additional items may be added / changed prior to meeting.

Agenda

I. Call To Order

Richard Patsy called the meeting to order at 9:04AM.

II. Pledge of Allegiance

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III. Moment of Silence Will Be Observed For The Following Deceased Members:

Miles R. Bowers, Retired Fire Chief
Christian C. Jakob, Retired Police Officer

IV. Election of Officers

1. Board Chair

Michael Lynch made a motion to nominate Chris Brown for Board Chair. Seconded by Willard Payne. The vote passed unanimously.

2. Board Secretary

Michael Lynch made a motion to nominate Willard Payne for Board Secretary. Seconded by Richard Patsy. The vote passed unanimously.

V. Public Speaking

There were no requests for Public Speaking. Public Speaking Period closed.

VI. Consent Agenda Items 2018-01-(01-10)CA

2018-01-01CA - Meeting Summaries to be Approved

1. Meeting Summary of the Board of Trustees Meeting held December 15, 2017. Copies held in the meeting files.
2. Meeting Transcript of the Board of Trustees Meeting held December 15, 2017. Copies held in the meeting files.

2018-01-02CA Disbursements

The listed expenditures in DISBURSEMENTS A & B have been reviewed and deemed payable. The Police and Fire Pension Fund Finance Manager certifies that they are proper and in compliance with the appropriated budget. Transaction lists available upon request.

DISBURSEMENTS A

12-1-2017 thru 12-31-2017

1. Summit Strategies Group	\$	61,466.00
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2. ACCESS	\$	19,890.35
3. GRS	\$	39,157.00
4. Baker-Gilmour Cardiovascular	\$	250.00
5. Thompson Siegel & Walmsley LLC	\$	44,218.64
6. The Northern Trust Company	\$	14,425.80
Total	\$	179,407.79

DISBURSEMENTS B

12-01-2017 thru 12-31-2017

1. Accounts Payable Distributions	\$	11,786.66
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2018-01-03CA Pension Distributions

All calculation and dollar amounts have been reviewed and calculated in accordance with accepted procedures.

December 1, 2017

1. Regular Gross	\$	7,596,767.43
2. Regular Lumpsum	\$	115.73
3. Regular Rollover	\$	0.00
4. Regular DROP Gross	\$	1,147,276.32
5. DROP Lumpsum	\$	202,777.77
6. DROP Rollover	\$	0.00
Total	\$	8,946,937.25

December 15, 2017

1. Regular Gross	\$	5,465,722.76
2. Regular Lumpsum	\$	72,973.25
3. Regular Rollover	\$	0.00
4. Regular DROP Gross	\$	1,148,164.16
5. DROP Lumpsum	\$	6,250.00
6. DROP Rollover	\$	0.00
Total	\$	6,693,110.17

December 29, 2017

1. Regular Gross	\$	5,462,274.73
2. Regular Lumpsum	\$	1,058.28
3. Regular Rollover	\$	0.00
4. Regular DROP Gross	\$	1,148,522.32

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5. DROP Lumpsum	\$	10,000.00
6. DROP Rollover	\$	0.00
Total	\$	6,621,855.33

The following Consent Agenda items 2018-01-(04-05CA) were verified with supporting documentation and approved at the Advisory Committee meeting held on January 10, 2018. Vote was unanimous:

[2018-01-04CA](#)

Application for Survivor Benefits

[2018-01-05CA](#)

Application for Time Service Connections

The following Consent Agenda items 2018-01-(06-10CA) were verified with supporting documentation and received as information at the Advisory Committee meeting held on January 10, 2018:

[2018-01-06CA](#)

Refund of Pension Contributions

[2018-01-07CA](#)

Share Plan Distributions

[2018-01-08CA](#)

DROP Participant Termination of Employment

[2018-01-09CA](#)

DROP Distributions

[2018-01-10CA](#)

DROP Distributions for Survivor

Richard Patsy made a motion to approve the Consent Agenda items 2018-01-(01-10CA). Seconded by Michael Lynch. The vote passed unanimously.

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VII. Executive Director's Report
Timothy H. Johnson

Timothy Johnson noted that the dashboard now shows data comparative to this same time last Fiscal Year. He pointed out that Public Record Requests have decreased since last year, which is a testament to the PFPF Staff's efficiency, transparency, and responsiveness, which has resulted in improvement of the public's trust. He said that all Board materials are posted on the website in advance of the meetings.

Timothy Johnson said that the New Member Orientation meeting for the Advisory Committee was held, and the orientation for the new Trustees of the Board would be held following this meeting.

Timothy Johnson said that a new performance plan and compensation plan is being developed for management and staff. He said that the plan has been drafted and sent to employee services for review. He said that after legal review it would be sent to the Board for approval.

Timothy Johnson updated the Board on the status of the Bailiff Time Service Connections implementation. He said that JSO is continuing to work with the PFPF on the process. He mentioned that legacy payroll systems are complicating matters, however progress is being made.

Kevin Grant described his Fiscal Year 2017 Budget to Actual handout. He said that the page in the book has been updated to this new document, which includes new numbers based on updated journal entries.

Kevin Grant noted that contributions have increased this year, parking revenues have increased due to the higher amount of parking spaces rented, and professional services have decreased due to two positions left unfilled last year. He said that there was an overall \$1.2 million of savings in expenses.

Pete Strong asked if this would replace the \$9.4 million number, which was originally drafted.

Kevin Grant answered yes.

Pete Strong said that this has a direct impact on the required contribution. He said that because of the updated expenses, the contribution would increase. He said that there would be a \$700 thousand update from the trial balance.

Kevin Grant said that would come from the accrued expenses for manager fees that were not originally captured.

Joey Greive asked if the \$7.8 million investment line calculation includes comingled fees.

Kevin Grant said yes, there are embedded fees as well. He said that an accrual must be done for the comingled fees.

Pete Strong said that this method of including embedded fees is consistent with past practice. He said all expenses have been explicitly recognized in the normal cost.

Joey Greive added that since the Fund assumes a 7% gross return that this method makes sense.

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VIII. Counsel Reports
Lawsikia Hodges

1. **DROP Retroactive Benefits Study**

(Do Members have a right to object to accrued benefit changes?)

Pedro Herrera said that an opinion would be prepared on this issue. He said that DROP Group 1-B Members would be allowed one irrevocable election to choose either the variable or the fixed DROP interest rate. He said that accrued benefits cannot be altered; therefore the members must make the choice.

Chris Brown asked if any Members have inquired about this issue.

Timothy Johnson answered yes. He said that some Members may prefer the variable rate on the DROP, and their preference must be accommodated.

Pedro Herrera said that the State Law is clear: Members' accrued benefits cannot be reduced once they have reached retirement age.

Pedro Herrera added that the Board or PFPF staff should not be advising Members on this choice; Members must seek their own financial advisors. He said that the Board should not make recommendations to avoid potential liability.

Timothy Johnson said that the PFPF staff would work with counsel to develop the election form for Members.

Richard Patsy asked if this affects everyone in the DROP.

Pedro Herrera said that no, it only affects a small group of under 200 Members.

2. **Ordinance 2017-759**

Reemployed Pensioners

Lawsikia Hodges said that Council approved this ordinance on January 9th.

3. **Chapter Funds Grievance Update**

Lawsikia Hodges updated the Board on the status of the grievances. She said that she anticipates appeals since the FOP and Fire grievances were denied.

4. **Securities Litigation**

Davita – Certification and Authorization of Lead Plaintiff

Pedro Herrera updated the Board on the status of the DaVita securities litigation case. He said that the Securities Litigation Policy is still being worked on with the help of OGC. He said that once it is finalized, it would come back to the Board for review.

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IX. Investment Consultant Reports

Dan Holmes

1. Economic & Capital Market Update – December 31, 2017

Dan Holmes highlighted the economic themes, which helped investment performance. He said that strong earnings growth inside and outside the US, better inflation numbers, more jobs, and the passing of the tax bill have helped investment performance. He said that the unemployment rate of 4.1% is the lowest since December 2000. He said that wage growth was unchanged at 2.5%, and GDP was revised up to 3.2%. He said that manufacturing has picked up substantially.

Dan Holmes discussed the EAFE index and the MLP index, which are starting to turn around. He said that international investments increased more than domestic investments due to the weakening US dollar. He added that the performance of fixed income is in line with expectations.

2. Flash Report – December 31, 2018

Dan Holmes said that this flash report is preliminary, and final numbers will be available by the February Board meeting. He said that he does not anticipate any change in returns.

Dan Holmes described asset allocation and the market value at the end of December on page 1 of the report. He said that the Fund's market value surpassed \$2 billion for the first time in its history. He added that asset allocation is in line with policy.

Dan Holmes described returns net of fees on page 3. He said that the total plan was up 17.4% net of fees for the calendar year. He added that international equities were the largest contributor to growth for the year.

Richard Patsy said that the EAFE index fund performance does not match with the index. He asked for insight.

Dan Holmes said that tracking error might be to blame. He said that stratified sampling might be the issue. He said that he would double check and get back with an answer. He said that he would expect a wide tracking error for International, but 100 basis points is bad.

3. Index Report – December 31, 2018

(Not discussed)

X. Council Liaison Update

Greg Anderson

Greg Anderson wished the Board of Trustees a Happy New Year, and said that he works forward to working together with the Board. He said that no new legislation is in the works at this time.

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XI. Old Business

XII. New Business

1. **Actuarial Valuation Report as of October 1, 2017 – Draft**

Pete Strong

Pete Strong said that this is the first full Actuarial Valuation that GRS has prepared for the PFPF.

Pete Strong described page 1 of the report. He said that there was a net unrealized gain about \$3 million less than in this draft. He said that the contribution was down \$5 million over the prior year.

Pete Strong described the experience for the year on page 4. He said that investment returns drove the unfunded liability down. He said that a load was added to the June 30 data to incorporate the 10-1-17 pay increase.

Pete Strong described some offsetting actuarial losses including 231 new hires, a growing active population, time service connections, and a lower than expected mortality.

Pete Strong described the graph on page 4, noting that the funded ratio is at 47.69%.

Richard Patsy said that there was a large jump in liability from 2010-2011.

Joey Greive said that the Actuarial Assumed Rate of Return moved down to 7% over those two years, resulting in the jump in liability.

Pete Strong described the basic components of the Actuarial Valuation on page 11, including the calculation of the pension liability surtax. He added that the surtax grew more than the assumed rate of 4.25%. He said that the Surtax Growth Rate Assumption would be updated each year.

Pete Strong described the columns on page 11, highlighting the last column which shows the PFPF's allocation of surtax revenues which are allocated across the City's three plans.

Pete Strong described the calculation of all liabilities of the Plan on page 9. He also described the total normal cost on page 10.

Pete Strong discussed the amortization schedule on page 12. He said that he recommends that each New Year should be the new amortization base. He said he recommends reducing the amortization period by one year each year.

Pete Strong overviewed the Actuarially Determined Contribution on page 8.

Pete Strong discussed the history of market value of assets and salary increases on page 16. He said that his second recommendation to the Board would be to move to a smoothed value of assets going forward.

Pedro Herrera asked if Pete Strong's recommendation would be to change the smoothing and amortization assumptions going forward. He asked what the impact would be of making these changes.

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Pete Strong said that there would be zero impact if all assumptions were realized. He said there would be an impact if there were deviations in future gains or losses.

Pete Strong discussed the rollforward of reserve account balances on page 31. He also described the active members in an exhibit on page 50.

Pete Strong discussed the inactives on page 51, noting that the total amount of benefits totaled \$163.3 million.

Richard Patsy made a motion to accept Pete Strong's recommendation to reduce the amortization period by one year annually beginning in 2018. Seconded by Willard Payne. Discussion:

Joey Greive said that he and Pete Strong have discussed this topic, and that it is a good goal to shorten the period annually. He said that after the period shortens to a certain extent, it begins to move back closer to market value.

Pete Strong said that once the amortization drops below 15 years, volatility increases. He said that he would suggest a floor of 15 years.

Michael Lynch said that he would like to see a contrast of the two amortization methods before the Board adopts a change.

Chris Brown asked how extensive this effort would be.

Pete Strong reiterated that if all assumptions were realized, there would be no impact. He said that a contrast would require sensitivity analysis assuming differences in gains and losses.

Michael Lynch added that the City's Surtax Growth Rate Assumption would be a factor as well, assuming the actual surtax revenues were lower or higher than expected.

Pete Strong said that a calculation was done on the 3.34% vs. 4.25% rates. He said that if a Surtax Growth Rate assumption of 3.34% was used, then the contribution requirement would have been \$11 million higher.

Richard Patsy asked if the Actuarial Valuation needs to be approved before January 31st.

Lawsikia Hodges said that January 29th is the deadline which is 120 days since October 1st.

Pete Strong added that the Board has until October to see what goes into the next Valuation. He suggested that the Board adopt the current Valuation pending the revision in asset gain and loss changes.

Richard Patsy added to his motion to include the floor of 15 years on the amortization period change. Seconded by Willard Payne. The vote passed 4-1 with Michael Lynch opposing.

Richard Patsy made a motion to incorporate 5-year smoothing on a prospective basis. Seconded by Willard Payne. Discussion:

Michael Lynch voiced his concern to making this change. He said that in the past, the City had requested the PFPF to move to a market value based valuation from smoothing. He said that he wants to make sure that the Board is doing things according to best practices for Members of the Fund.

Richard Patsy said that market value is used mostly by corporations, and smoothing makes sense for public plans.

Michael Lynch said that he does not disagree – he just wants to see prospective outcomes before making a decision.

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Pete Strong said that none of his other clients use a market value method.

The vote passed 4-1 with Michael Lynch opposing.

Michael Lynch made a motion to adopt the actuarial valuation incorporating Pete Strong's asset gain and loss changes. Seconded by Nawal McDaniel. Discussion:

Joey Greive asked Pete Strong to update wording on the contributions page of the valuation.

Pete Strong said that he could expand on the footnote and note the City's intent.

Michael Lynch added this to his motion. The vote passed unanimously.

Timothy Johnson said that he had two more comments: First, he said that he intends to have audited financial statements prepared in time for the actuarial valuation. Secondly, he said that the FIAC recommended adoption of the Actuarial Valuation, however the FIAC cautioned the Board to pay attention to the statement at the bottom of page 6. He said that the FIAC felt that because the City generated extra revenues, it would be appropriate to ask the City to put more money into the Fund than is minimally required. He said that the FIAC recommendation would be for the Board to direct Timothy Johnson to ask Council for more money, possibly increasing the contribution to \$135 million.

Greg Anderson said that he thinks the request should be directed to the Mayor's office since he is responsible for crafting the City Budget.

Richard Patsy made a motion to direct Timothy Johnson to send this request to the Mayor's office as well as City Council. Seconded by Nawal McDaniel. The vote passed unanimously.

2. Authorized Signatures

Timothy Johnson said that no action is required on this item; it is just something that needs to be done.

Pete Strong said that he could perform a sensitivity analysis on smoothing using previous years' experience. He said that it would cost about \$10,000.

Michael Lynch made a motion to direct Pete Strong to perform the sensitivity analysis reflecting changes due to the variable surtax growth rates and the smoothing, not to exceed \$10,000 in cost. Seconded by Richard Patsy. The vote passed unanimously.

XIII. Next Scheduled Meetings

Friday February 16th, 2018 at 9:00AM

XIV. Adjournment

Chair Chris Brown adjourned the meeting at 10:42AM.

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Meeting recorded by Steve Lundy, Assistant Plan Administrator

Willard Payne, Board Secretary

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