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Jacksonville Pension Bled Money as Funding Shortfall Doubled.

Jacksonville, Florida's police and firefighter pension's poor results led it to underperform the market by hundreds of millions of dollars as its board failed to provide oversight of outside managers and out-of-control travel spending by its own staff.

Those are the conclusion of an audit of the underfunded \$1.43 billion Jacksonville Police and Fire Pension Fund released on Wednesday. Poor investment decisions contributed to under performance of at least \$370 million and failure to scrutinize investment management led to \$36 million in excess fees over six years, according to the report by Benchmark Financial Services Inc., hired by the city this year to audit the pension fund.

"You can look at this board and see profound fiduciary lapses over the decades," said Edward Siedle, president of Benchmark, in an interview. "The performance of the fund is a very clear example of the lack of oversight. They didn't adhere to minimal standards they were legally bound to."

Unfunded Liability

The pension liability, which has risen to \$1.65 billion from \$798 million in 2008, has caused a drop in the city's bond rating, which drives up borrowing costs in the municipal-debt market. Meanwhile rising pension costs are crowding out spending for raises for city workers, street repairs, children's programs and other city services, said Bill Gulliford, a councilman who pushed Jacksonville to hire Benchmark, according to remarks to be released with the report.

"A vast and staggering sum of money has been recklessly squandered, and now lost forever to this community," said Gulliford. "I feel a profound sadness for our citizens."

A Moody's Investors Service report in July found that the city has the fifth highest pension liability as a percentage of operating revenue, at 403 percent, behind Chicago, Dallas, Houston and Los Angeles. "Pension payments will continue to constrict the city's financial operations," Moody's said when cutting the city debt rating to Aa2 from Aa1 last year.

Mayor Lenny Curry declined to comment until he reviewed the report, said his spokeswoman, Marsha Oliver.

John Keane, the fund's executive director since 1990, who is now a consultant, didn't respond to a telephone call requesting comment. Keane retired in September only to be hired as a consultant during the transition to a new top executive.

Poor Decisions

Since 2000, the pension's so-called funded ratio, or the amount of assets needed to cover future payments, fell to 39 percent from 87 percent in 2000, according to the report. The board failed to provide fundamental oversight for such things as verifying and reporting how well its investments

performed or even how much it paid in fees to manage and track money under its control.

“Poor investment decision making by the board” contributed to its underfunded status, the report said, citing the example of \$27 million of losses on energy master limited partnerships.

The board’s failure to scrutinize fees paid to investment managers cost \$6 million a year in excessive charges over the past six years. It’s failure to review the damages to the fund caused by its former investment consultant over two decades cost an estimated \$300 million to \$500 million in under performance losses, the report said.

Keane as executive director has been controversial, the report said, because of his frequent travel to conventions, \$400,000 in unused vacation pay and a personally created pension within the plan. The administrator has made 31 trips since 2010 to Canada, Scotland and other places, staying in hotels operated by Caesars Palace, Hotel Frontenac, Four Seasons and Trump Tower. Keane was also the lead negotiator for police and fire unions in efforts to reform the pension, according to the report. And it found that trustees and staff traveled to conferences put on by investment and law firms seeking to get hired as asset managers and for legal work.

Documents Subpoenaed

The report cited a host of documents the board and the pension fund failed to provide, including accurate performance and return information and key contracts used to procure services. The fund refused to turn over some of the records needed to fully conduct the audit, the report said. In some cases it didn’t have fee analysis prepared by investment consultants or other third parties that would allow the board to monitor the reasonableness of fees, the report said.

The city council is subpoenaing documents the fund failed to turn over and Siedle has agreed to review them and supplement the audit, Gulliford said in his remarks.

“While we have estimated fund under performance losses of approximately \$370 million, we simply do not know for certain how well, or badly, the fund’s investments have performed over the decades,” the report said. “And, based upon the information we were provided, apparently neither does the board nor anyone else currently involved with the fund.”

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