POLICE AND FIRE PENSION FUND
One West Adams Street, Suite 100
Jacksonville, Florida 32202-3616

Telephone Number (904) 255-7373
Fax Number (904) 353-8837

MEMORANDUM

TO: Michael Corrigan,
Chairman, Pension Sustainability Committee

FROM: John Keane John Keane
Executive Director - Administrator

SUBJECT: Pension Sustainability Recommendations

DATE: May 29, 2009

In accordance with your request, please be advised that I am transmitting herewith a series of recommendations that would aid the sustainability of the City's Retirement System.

Enhancements to City Pension Funding Policies:

1. Bar any future use of pension reserves as an alternative source for funding the annually required City pension contributions otherwise provided from the City's Annual Budget (i.e. ban any future pension contribution holidays).

2. Provide that the City Contribution Rate for the PFPF shall be a minimum of 35% until such time as the Fund is 100% actuarially funded (subject to adjustment if POB's are issued).

3. Dedicate the equivalent of 1 mill of property taxes as a supplemental contribution to the PFPF until such time as the Fund is 80% funded. The funded status of the PFPF was calculated at 53% as of October 1, 2008 ($1,692,974,683 in actuarial liabilities vs. $894,903,336 in actuarial assets). An 80% funded status would have been calculated with the availability of an additional $556,308,399. Assuming a $55 million value of 1 mill, this level of dedicated supplemental funding would produce $556 million in approximately 10 years, excluding investment returns and growth in the value of 1 mill.

4. Whenever the City enjoys the receipt of financial windfalls or one-time revenues, it should consider the allocation of such sources as a supplemental contribution to the pension funds until such time as the pension funds are 90% funded.

5. Institute a provision that the City's contribution to the PFPF shall be based upon the application of the annually established contribution rate to the actual payroll or the budgeted payroll, whichever is greater (to cover the impact of vacant positions).

6. Expand the City's past program of contributing real estate to the PFPF for future redevelopment purposes and placement into the PFPF's real estate investment portfolios. For instance, the City could transfer portions of the Cecil Field property (including timberland), the Forsyth and Main parcel, the Shipyards property, and the Southside Generating Station parcel to the City's pension plans (also see below reference to the old Federal Courthouse). The City could also consider transferring the responsibility for fire station construction projects to the PFPF, which would be leased back to the City upon completion and placement into service.

<u>Policies to Support a Vibrant Growth in the Payroll Base (to spread UAAL over a larger base):</u>

7. The long-term financial health of the PFPF would be enhanced to the extent that the City begins to address the sub-standard staffing for Police Officers and Firefighters as measured by the level of positions per each 1,000 of population and per capita spending for police officers and firefighters vs. major Florida communities (local per capita spending is only about one-half of that spent by major Florida communities).

8. Discontinue the practice of relying heavily upon the use of police and fire overtime and alternatively pursuing the addition of new positions to meet workforce needs with the new hires becoming additional members of the pension fund.

9. Bar the practice of establishing positions outside of the PFPF and allowing retirees and former droppers from becoming employed into such positions (with the exception of Certified Court Bailiff's who have historically been granted the ability to be hired into such position without the loss of pension benefits).

   Note: Please refer to the attached Exhibit A for a discussion on the impact of a vibrant payroll base upon UAAL amortization efforts.

<u>Financial Management and Investment:</u>

10. Consider the issuance of Pension Obligation Bonds (POB's) to fund a portion of the UAAL in the pension plans. The combination of historically low interest rates and historically low stock market valuations present an attractive period in the financial markets for the success of POB's (see Exhibit C for a general discussion on POB's).

11. In the event that POB's are pursued, consider the direct issuance of Bonds to the PFPF with a junior lien "covenant to budget and appropriate" pledge (scheduled at the end of the maturity spectrum, possibly as CAB's), thus realizing financing economies and preserving the City's bonding capacity. The deposit of such securities into the PFPF's fixed income portfolio would allow the Fund to liquidate a like amount of fixed income securities currently under management and reallocate such resources to equity investment managers, amplifying the advantages of POB's and cutting management fees.

12. Underscore the need to permit the PFPF to enjoy the same level of investment flexibility as that authorized for the FRS, the GEPP and all of the other non-public safety plans established within the State of Florida (i.e. authorize investments for the PFPF that are otherwise permitted under applicable sections of 215.47, Florida Statutes).

FY2010 City Budget Relief:

13. Implement programs that would effectively fund the City's contribution to the pension funds early in the fiscal year so as to allow funds to begin to work earlier in the financial markets. This would allow for a tactical entry into the stock market at the current low levels of valuation and concurrently avoid the actuarial assessment of interest penalties at the actuarial rate of 8.5% for the PFPF. This avoidance of actuarial assessments would allow the City to cut the PFPF contribution rate by 2.5% from the rate otherwise required at 10-1-2009 (representing a $3.9 million value to FY2010 Budget). An accelerated contribution to the PFPF of this nature would be made possible by various means:

    a. Consider the use of Tax Anticipation Notes as a financing vehicle to provide the cash flow necessary to allow for accelerated remittances to the PFPF.

    b. In the alternative, the City could merely authorize an "Advance to Other Funds" early in the fiscal year (from the General Fund to the PFPF) in the general manner described in the attached Exhibit B.

14. Explore the possibility of issuing City bonds for placement into the fixed income portfolio of the PFPF as an element of the City's pension contribution requirement for FY2010. For example, under this concept, the City would be able to retain the current pension contribution rate of 32.11% in FY2010 (or some amount below the new requirement level) and supplement this flow of budgetary funds with the issuance and remittance of an interest bearing City bond. The value of the 32.11% contribution rate, together with the principal amount of the bond, would satisfy the City's annual required contribution established by the Actuarial Valuation of October 1, 2008. Under this concept, the City would only be required to make provision for the interest amount of such City bond within the FY2010 City Budget. The issuance of this bond to the PFPF could be thought of as the first tranche of the larger POB program currently under consideration by the City.

15. The use of a City bond to fulfill a portion of the City's FY2010 contribution requirement is based upon the concept of providing a "budgetary bridge" that would carry the City's Budget past the current recession. This bridge could also be constructed with the use of real estate transfers. For instance, the City could consider transferring the old Federal Courthouse to the PFPF and replicating the redevelopment model used for the Haverty's Building. The value of the parcel (and possibly similar parcels) would offset the amount of the annual pension contribution otherwise required. This real estate transfer, together with the assignment of renovation costs to the PFPF, would also provide a secondary benefit to the City of freeing up capital dollars currently allocated for the Courthouse project for use in addressing other City capital outlay priorities.

Program Modifications:

16. Institute an age 35 limit for the hiring of new police officers and firefighters. This would ensure that new hires would serve for a regular career period, thus allowing the City to get the full benefit of the training invested in the individual and limiting the likelihood of disability pensions.

17. Reinstitute the requirement that the GEPP/Corrections Plan conduct pension physicals and to mandate the execution of a medical waiver for documented medical conditions for purposes of future disability determinations (this cost control measure was removed with the passage of Ordinance 2006-1136-E).

18. Remove from the Ordinance Code the practice of allowing droppers entering the program after 10-1-2009 the ability to transfer the value of Retirement Leave Accounts into the PFPF.

Market Update:

We have previously reported to you the extent of investment losses that are associated with the global financial crisis. This current market cycle appears to have reached a trough in terms of stock market valuations on March 9, 2009. Since that date, the PFPF has recovered $110.6 million from the investment losses previously recorded through March 9th. The extent of this recovery translates into a return of 16% between the trough of March 9th and today's opening value. This very recent experience offers a glimmer of hope that we may have seen the worst and some insight into the magnitude of investment gains that could be available once the market recovery is truly underway. Once the real recovery is underway, we will be able to make significant inroads toward the liquidation of major elements of the UAAL.

cc: Mayor John Peyton
City Council Members
Kirk Sherman
Mickey Miller
Alan Mosley
Kent Olsen

Exhibit A

Impact of a Vibrant Payroll Base upon UAAL Amortization

The fixed cost of a pension plan's UAAL is spread over the active employee workforce as a fixed percentage. In the event that a pension plan's member workforce were to be doubled, it stands to reason that the fixed UAAL amortization percentage could be cut in half and still produce the same amount of dollars toward the liquidation of the UAAL. This simple illustration underscores the value of a vibrantly growing workforce when attempting to pay down a fixed UAAL obligation.

By applying the same logic, an active member workforce that is subdued strains a plan sponsor's ability to liquidate an UAAL and produces a higher UAAL percentage requirement that would otherwise be necessary.

A series of budgetary and personnel policies of the City have collectively contributed to the outcome of PFPF member workforce that exhibits subdued characteristics as opposed to a vibrantly growing workforce. The elements that have contributed to this outcome may be generally summarized as follows:

1. The City has fallen behind other major Florida communities in terms of per capita expenditures for police and fire. Studies reflect the fact that Jacksonville spends on a per capita basis $378 for police and $171 for fire. This compares to an average per capita level of expenditures by major Florida communities of $666 for police and $383 for fire. Jacksonville is also falling behind in terms of public safety workers per 1,000 population.

2. Jacksonville is placing great reliance upon the use of overtime in lieu of hiring new public safety officers. The Times-Union story of April 26, 2009 reported the expenditure of $19,920,000 in overtime payments during 2008 for the JSO and the Fire Department. This translates into an average of $6,060 for each employee (please note that the data recited above does not include Correctional Officers).

3. Jacksonville has made a conscious effort to realize budgetary economies through the hiring of Community Service Officers (CSO's) in lieu of police officers. Inasmuch as CSO's are not members of the PFPF, their hiring detracts from the growth in the PFPF active member workforce. A recent analysis indicated that there were 82 CSO's employed by the City with a collective annual payroll of $2,091,000 based upon an average salary of $25,500.

4. There have been recent examples of legislation that has permitted the employment of a segment of the normal public safety workforce in positions outside of PFPF membership. These positions were formerly occupied by personnel who were enrolled in the PFPF. Thus, this practice translates into a lower PFPF payroll base.

5. The need to meet lapse factors and to fund overtime require public safety budget analysts to keep positions open during the budget year which translates into a lower pensionable payroll base.

6. The public debate over the last 15 months has implied that the pension benefit structure of the PFPF will be diminished in the near future. This public discussion has encouraged a surge in DROP enrollment and a corresponding decrease in the active member payroll base from which UAAL amortization payments are produced.

The above examples offer insight into the various factors that have contributed to a subdued workforce and accordingly a higher percentage requirement for the amortization of the UAAL, which for the PFPF is currently established at 23.93% of the active member payroll base.

EXHIBIT B

POLICE AND FIRE PENSION FUND

One West Adams Street, Suite 100
Jacksonville, Florida 32202-3616

Telephone Number	(904) 255-7373
Fax Number	(904) 353-8837

MEMORANDUM

TO: Mickey Miller
City Chief Financial Officer

FROM: John Keane John Keane
Executive Director – Administrator

SUBJECT: Lump sum Contribution of Employer Pension Contributions for FY2010

DATE: April 3, 2009

As you know from our recent conversations, the State Actuary is pushing us to make a special provision for certain interest assessments to acknowledge the fact that the City's employer contributions are made over the course of the fiscal year. This new provision carries the potential value of $3.75 million ($150 million at 2.5%) in terms of additional City contributions. Presumably the State Actuary will be pushing for a similar provision in conjunction with his review of the Actuarial Valuations for the City's other two pension plans.

As a means of avoiding this impact upon the City's FY2010 Budget, we would like to request that you consider a technique that would involve the recording of an "Advance to other Funds" at the beginning of the fiscal year followed by a series of monthly reversals that would approximate the regular flow of employer contributions that would be processed over the course of the year. For your convenience, we have attached a pair of manual journal entries that would accomplish this transaction.

We have also attached some possible language for inclusion in the Budget Ordinance that would grant you the flexibility to undertake such a program should you deem it appropriate.

If this concept were adopted, it would additionally place the City in a posture of being able to pursue a substantial "Tax Anticipation Note" financing program. For your additional information, I have also attached a schedule that contains four similar cash flow financings that were successfully accomplished by the City in the mid – 1980's. We are unsure if the tax law continues to permit such financing programs that would allow for the retention of arbitrage profits.

Document Category : JE
Prepared By :
Initiating Dept. :
Input Period : 10-15-2009

Approval Type : 01
Document Amount: $17,500,000.00
No. of Lines : 4
TranCode Hash : 1,614

Document Number : JEAF10-

City of Jacksonville
Accounting Division
Online FAMIS

Dr.	Cr.	Lin No.	Trans. Code	Document Reference	Trans. Amount	Index Code	Sub - Object	GL Account	Subsidary	Treasury Number	Line No.	Sub-Funds
10400	23690	1	404		6,250,000.00	JXSF011		13290	133012		1	110
13290	10400	2	403		6,250,000.00	JXSF621PF		23690	236621		2	621
		3									3	
10400	23690	4	404		2,500,000.00	JXSF011		13290	133011		4	110
13290	10400	5	403		2,500,000.00	JXSF611PF		23690	236611		5	611

NOTE: A Similar JE would be made for each of the Following 11 months of FY2010.

Explanation :
To Record Return of 1/12 of 10-1-2009 Advances to Pension Funds Representing the estimated Amount of the Employer Contributions made by the City's General Fund during FYE 9-30-2010

Approved

10-15-2009

Document Category :	JE	Approval Type :	01
Prepared By :		Document Amount:	$210,000,000.00
Initiating Dept. :		No. of Lines :	4
Input Period :	10-01-2009	TranCode Hash :	1,614

Document Number : JEAF10-

City of Jacksonville

Accounting Division

Online FAMIS

Dr.	Cr.	Lin No.	Trans. Code	Document Reference	Trans. Amount	Index Code	Sub - Object	GL Account	Subsidary	Treasury Number	Line No.	Sub-Funds
10400	23690	1	404		75,000,000.00	JXSF621PF		23690	236621	*	1	621
13290	10400	2	403		75,000,000.00	JXSF011		13290	133012	*	2	110
		3									3	
		4									4	
10400	23690	5	404		30,000,000.00	JXSF611PF		23690	236611	*	5	611
13290	10400	6	403		30,000,000.00	JXSF011		13290	133001		6	110
		7									7	
		8									8	
		9									9	
		10									10	
		11									11	
		12									12	
		13									13	
		14									14	
		15									15	
		16									16	
		17									17	
		18									18	
		19									19	
		20			*	- Subsidiary	Account	Main	Tenance	Required	20	
		21									21	
		22									22	
		23									23	
		24									24	
		25									25	
		26									26	

Explanation :

To Record Advances To Pension Funds Representing the estimated Amount of the Employer Contributions To be made By the City's General Fund during FYE 9-30-2010

Approved

10-1-2009
(Date)

Section 9.4 Pension Contributions.

The employer's contribution to the pension funds is hereby set as follows:

(a) for the 1937 City Employees Pension Fund, the percentage shall be 10.43%.

(b) for the 1937 Police and Fire Pension Fund, the percentage shall be 32.11%.

(c) for the Corrections Officer's Pension Fund, the percentage shall be 17.16%.

The City's Chief Financial officer may optionally advance all or a part of the dollar value of such employer's contribution during fiscal year 2009-2010 to the respective pension funds as a financial management tool.

PART X. Waivers.

Section 10.1 Jacksonville Children's Commission, Waiver of Section 51.102, *Ordinance Code*.

The requirements of Section 51.102, *Ordinance Code*, requiring that the Jacksonville Children's Commission be funded in the amount set forth therein, is hereby waived. The Jacksonville Children's Commission shall be funded in fiscal year 2008-2009 as set forth herein.

Section 10.2 Recapture of Funds, Waiver of Section 106.106(i), *Ordinance Code*.

The provision of Section 106.106(i), *Ordinance Code*, requiring any recaptured funds be identified and transferred to the General Fund and thereafter to the Emergency Reserves is hereby waived for fiscal year 2008/2009. The Recaptured Funds up to $5,000,000 will be used to replenish the Emergency Funds first and any funds over that amount will be placed in the General Fund.

Section 10.3 Contents of Budget, Waiver of Section 106.203, *Ordinance Code*, to allow Amendments to the Ordinance Code within the City's 2008/2009 Fiscal Year Budget.

The provision of Section 106.203, requiring that the annual budget ordinance of the general government and of the independent

BONDHISTORY
Pitch 15

CITY OF JACKSONVILLE
ANALYSIS OF HISTORICAL BONDING ACTIVITY

Issue Date	Final Maturity	Range of Interest Rates	Bond Yield	Description	Original Bond Issue Size	Less Refunding & Temporary Notes and BAN's: Refunding Issues	BAN Issues	TAN's and RAN's	Net New Debt Issues	Project Description
				Godbold Administration:						
01-01-81	04-01-01	9.30-9.50%		State Pollution Control, Series M	$26,600,000.00				$26,600,000.00	Buckman Treatment Plant Expansion
07-30-81	07-01-84	9.50%		Excise Tax Revenue B.A.N., 1981	$24,400,000.00		$24,400,000.00			Gator Bowl Expenasion & Recreation
06-10-82	06-01-85	9.30%		Parking & Excise Tax Revenue B.A.N., 1982	$10,000,000.00		$10,000,000.00			Water Street Parking Garage
04-01-83	10-01-08	9.40-9.50%		Excise Tax Revenue Bonds, 1983	$24,500,000.00				$24,500,000.00	Gator Bowl Expansion & Recreation
10-04-83	10-01-87	6.25-7.00%	7.5264%	Capital Improvement Revenue Cert, 1983	$44,860,000.00				$44,860,000.00	Miscellaneous Capital Improvements
03-20-84	10-01-09	6.00-10.25%	10.0246%	Excise Tax & Guar Entitlement Revenue, 1984A	$33,499,989.00				$33,499,989.00	Convention Center
03-20-84	10-01-88	7.50%		Excise Tax Bond Anticipation Notes, 1984B	$3,650,000.00				$3,650,000.00	Prudential Infrastructure
07-17-84	10-01-08	6.75-10.50%	10.7951%	Parking & Excise Tax Revenue Bonds, 1984	$13,500,000.00				$13,500,000.00	Water Street Parking Garage
09-20-84	10-01-09	8.75-10.875%	10.7183%	Excise Tax Revenue Refunding Bonds, 1984C	$29,245,000.00	$29,245,000.00				Refund 1977 ETR
10-02-84	09-01-85	7.50%		Tax Anticipation Notes, 1984	$30,000,000.00			$30,000,000.00		Cash Flow Financing
04-16-85	10-01-93	6.25-8.875%	8.9530%	Excise Tax Revenue Bonds, 1985A	$14,995,656.00				$14,995,656.00	Jax Landing Infrastructure & Misc
10-01-85	09-01-86	6.25%		Tax Anticipation Notes, 1985	$38,500,000.00			$38,500,000.00		Cash Flor Financing
06-15-86	10-01-90	4.75-6.10%		Street & Drainage Bonds, 1986	$33,220,000.00				$33,220,000.00	Street & Drainage Improvements
06-26-86	10-01-11	4.75-8.375%	8.359%	Excise Tax Revenue Bonds, 1986A	$45,000,000.00				$45,000,000.00	Miscellaneous Capital Improvements
08-01-86	10-01-11	5.10-7.75%		Parking & Excise Tax Revenue Bonds, 1986A	$15,000,000.00				$15,000,000.00	Jax Landing Parking Garage
08-01-86	07-31-87	5.20%		Tax Anticipation Notes, 1986	$48,000,000.00			$48,000,000.00		Cash Flow Financing
12-22-86	12-22-11	7.00%		Mandarin Utility Purchase Agreement	$17,700,000.00				$17,700,000.00	Mandarin Utilities Acquisition
02-03-87	12-31-87	3.70%		Revenue Anticipation Notes, 1987	$12,500,000.00			$12,500,000.00		Cash Flow Financing
03-17-87	10-01-08	3.75-6.75%	6.4694%	Parking & Excise Tax Revenue Ref Bonds, 1987	$16,815,000.00	$16,815,000.00				Refund 1984 Parking
06-01-87	06-01-89	4.25-4.50%		Alexander Brest Purchase Agreement	$1,850,000.00				$1,850,000.00	Metropolitan Park Expansion
06-16-87	10-01-97	5.00-7.00%	6.6284%	Criminal Justice Capital Improvements, 1987	$17,200,000.00				$17,200,000.00	Pre-Trial Detention Facility
				Total	$501,035,645.00	$46,060,000.00	$34,400,000.00	$129,000,000.00	$291,575,645.00	
				Hazouri Administration:						
07-16-87	10-01-09	4.40-7.75%	7.5632%	Excise Tax Revenue Ref Bonds, 1987A	$38,800,000.00	$38,800,000.00				Refund 1984A ETR
02-23-88	10-01-12	5.25-7.75%	7.7143%	Criminal Justice Capital Improvements, 1988	$67,800,000.00				$67,800,000.00	Pre-Trial Detention Facility
04-05-88	10-01-09	4.50-7.90%	7.3911%	Excise Tax Revenue Refunding Bonds, 1988A	$36,207,873.00	$36,207,873.00				Refund 1984C ETR Refunding
06-15-88	07-01-01	6.40-7.00%		Pollution Control Series W Refunding Bonds	$20,255,000.00	$20,255,000.00				Refund Series M Pollution Control
07-12-88	10-01-13	5.25-8.125%	7.8474%	Excise Tax Revenue Bonds, 1988B	$34,630,000.00				$34,630,000.00	Solid Waste & Recreation
07-12-88	10-01-95	5.90-6.85%	6.5997%	Capital Improvement Revenue Certif, 1988	$55,000,000.00				$55,000,000.00	Miscellaneous Capital Improvements
09-27-88	10-01-93	5.90-6.60%	6.4100%	Community Corrections Facility	$4,160,000.00				$4,160,000.00	Community Corrections Facility
06-01-89	12-01-95	Variable	Variable	First Municipal Loan Council Pool Program	$8,000,000.00				$8,000,000.00	Montgomery Corrections Expansion
08-24-89	04-01-02	5.10-5.30%		Custody Receipts-Pollution Control Series A	$19,570,000.00	$19,570,000.00				Refund Series A Pollution Control
08-24-89	04-01-06	5.25-6.20%		Custody Receipts-Pollution Control Series D	$15,000,000.00	$15,000,000.00				Refund Series D Pollution Control
08-30-89	07-01-10	4.15%		State DER Revolving Loan Program	$4,362,000.00				$4,362,000.00	16th Street Trunk Sewer
12-11-90	12-11-15	7.00%		Canal Utilities Purchase Agreement	$6,750,000.00				$6,750,000.00	Canal Utilities Acquisition
				Total	$310,534,873.00	$129,832,873.00	$0.00	$0.00	$180,702,000.00	

Exhibit C

City of Jacksonville

Police and Fire Pension Fund

Unfunded Pension Liability Discussion

RBC Capital Markets

Outline of Presentation

RBC Capital Markets

Pension Plan Funding Issues

Fundamentals of UAAL

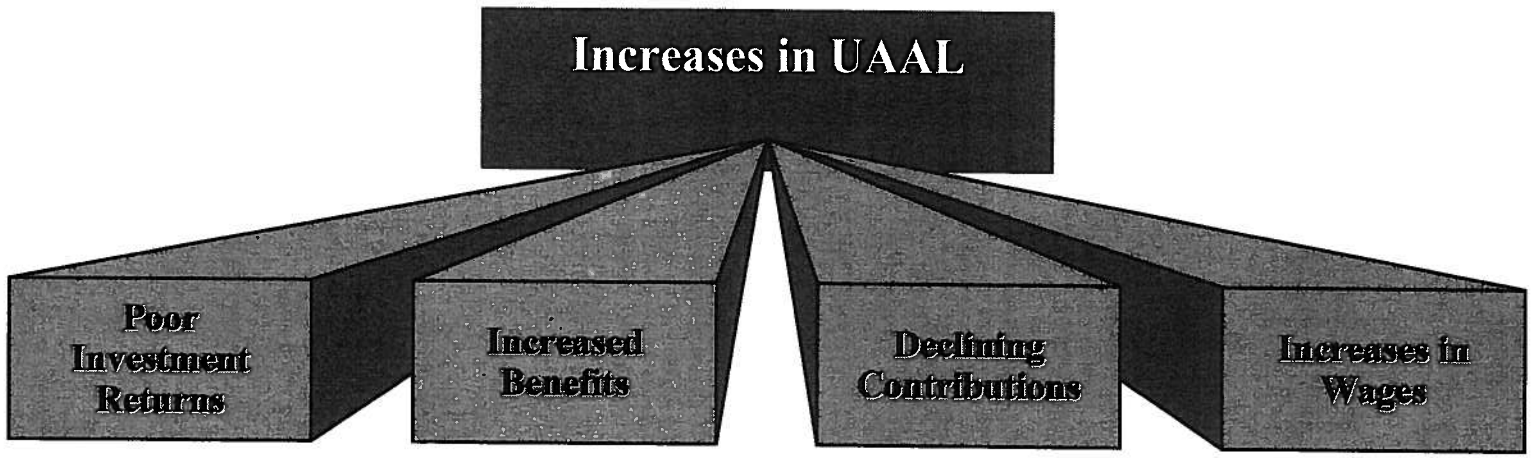
RBC Capital Markets

- There are two components to the actuarial cost of a defined-benefit pension plan: the normal cost and the amortization charge for Unfunded Actuarially Accrued Liability (UAAL)
- UAAL is calculated as a pension fund's projected long-term obligations to pay benefits minus its total present value of assets and normal cost payments
- There are three main factors which will affect UAAL:
  - Changes in Benefits
  - Changes in actuarial assumptions
  - Actuarial gains or losses, which are the result of differences between the actual experience of the plan and the projected experience of the plan
- UAAL is usually amortized on either a level dollar or level percentage of payroll basis over a period of time known as the "funding period"
- As UAAL rises, the total annual pension cost (APC) rises proportionately, which leads to a burden on the City's budget

Why are Public Pension Funds Underfunded?

RBC Capital Markets

- Several factors have contributed to the recent shortfalls in retirement funds, commonly known as Unfunded Accrued Actuarially Liabilities (UAAL):



Poor Investment Returns

- Losses occur when actual return is below assumed investment rate
- Typical assumed rate: 7-10%
- Jacksonville rate: 8.50%

Increased Benefits

- Excess returns during 1990's created overfunding
- Many sponsors improved benefits as a result
- Other sponsors started granting early retirements

Declining Contributions

- A solution to utilize excess returns
- Sponsors decreased or eliminated pension contributions
- Slowed growth of assets

Increases in Wages

- Salaries increased faster than expected
- Produced higher costs than anticipated by actuaries

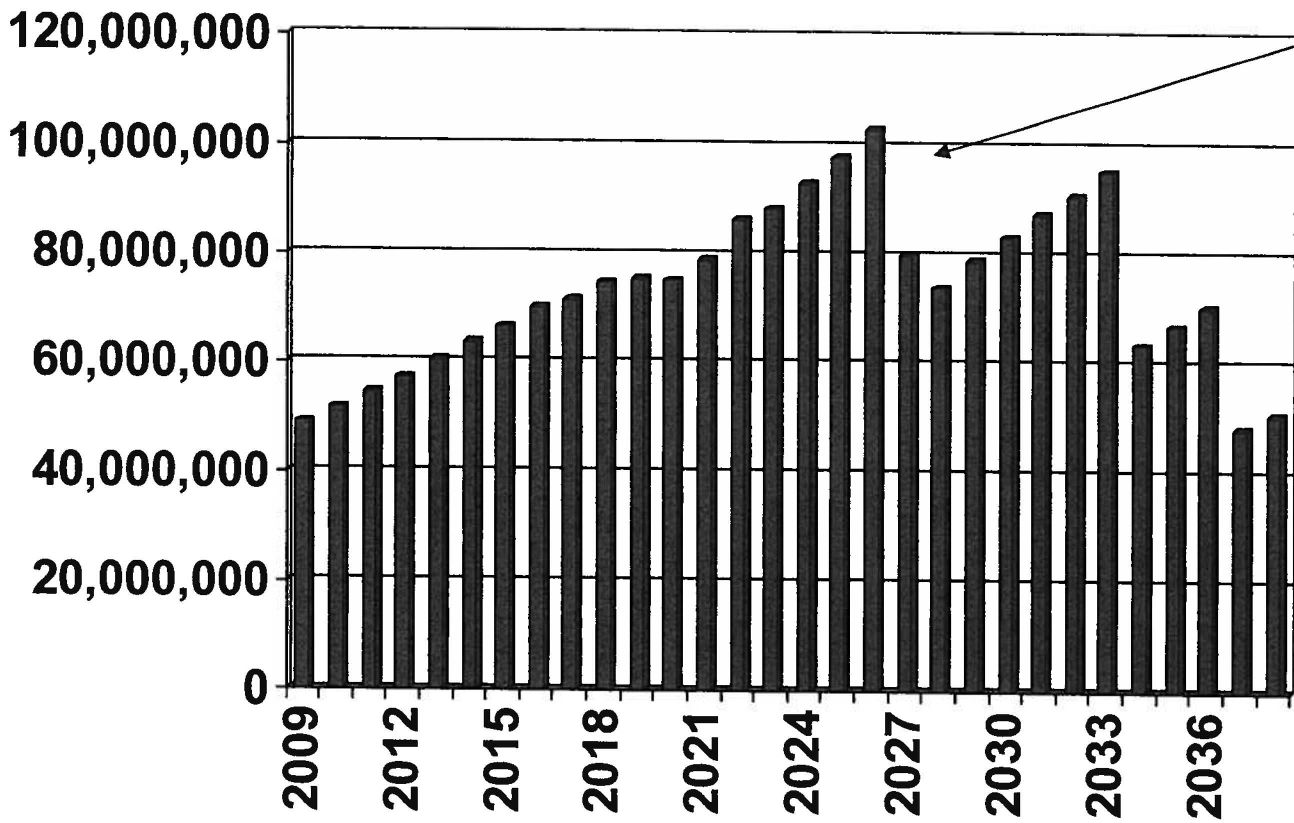
- Because many public pension funds "smooth" their data over 3-5 years and valuations generally only occur every 2 years, reported liabilities are expected to significantly increase

Summary of Jacksonville Police/Fire Pension Plan

RBC Capital Markets

Acutarial Value of Assets		$761,826,374
Actuarial Accrued Liability	$	1,550,547,809
Unfunded AAL	$	(788,721,435)
Annual Covered Payroll	$	148,276,743
Annual Required Pension Contribution	$	65,389,407
Contributions as % of Payroll		*44.1%*

Numbers based upon preliminary report dated September 30, 2008



The City's expected payments on this unfunded liability will grow considerably over the next 30 years

Why a Pension Obligation Bond?

RBC Capital Markets

- Jacksonville currently has approx. $800 million in unfunded police/fire pension obligations which it must amortize over the next 30 years
- Because the plan is assumed to grow its investments by 8.5% per year, the city's required payments on this unfunded obligation has a 8.5% interest component added on to it.
- Alternatively, The City could fund its UAAL by selling taxable Pension Obligation Bonds (POBs)
- Annual cash flow savings are achieved when the new bonds amortize at a lower rate than the actuarially determined 8.5% investment rate
- POB proceeds are infused into the pension fund in order to partially or fully fund the current actuarially determined UAAL

Why a Pension Obligation Bond?

RBC Capital Markets

- Net effect of transaction is a "refinancing" of the unfunded obligation
  - The wider the spread between the POB interest costs and the assumed investment rate, the greater the savings resulting from a POB issue
- The bonds are issued on a taxable basis because the debt finances the purchase of financial assets rather than paying for public projects
- Actual savings experienced also depend on the investment returns for invested proceeds over the life of the issue
  - Selling bonds in low interest rate environments increases the spread and lowers the risk of underperformance
  - Any return that exceeds the cost of borrowing can be used to reduce required contributions to the pension fund

Benefits vs. Risks of Bonding for UAAL

Benefits

- Capitalize on the spread between the current taxable borrowing rate versus the actuarial determined investments assumption
- Allows the sponsor to fund assets which will be able to earn returns on the market
  - If market rates start generating excess returns, the sponsor can benefit by reducing or eliminating its normal cost payments
- Can be looked on favorably by rating agencies
  - S&P reports that inadequately funded plans have the potential to cause a decline in a sponsor's credit quality
  - Rating agencies do not consider Pension Obligation Bonds (POBs) as a creation of new debt and are initially credit neutral by S&P and Moody's
- Many alternatives are available in order to smooth out future projected payments and savings

Risks

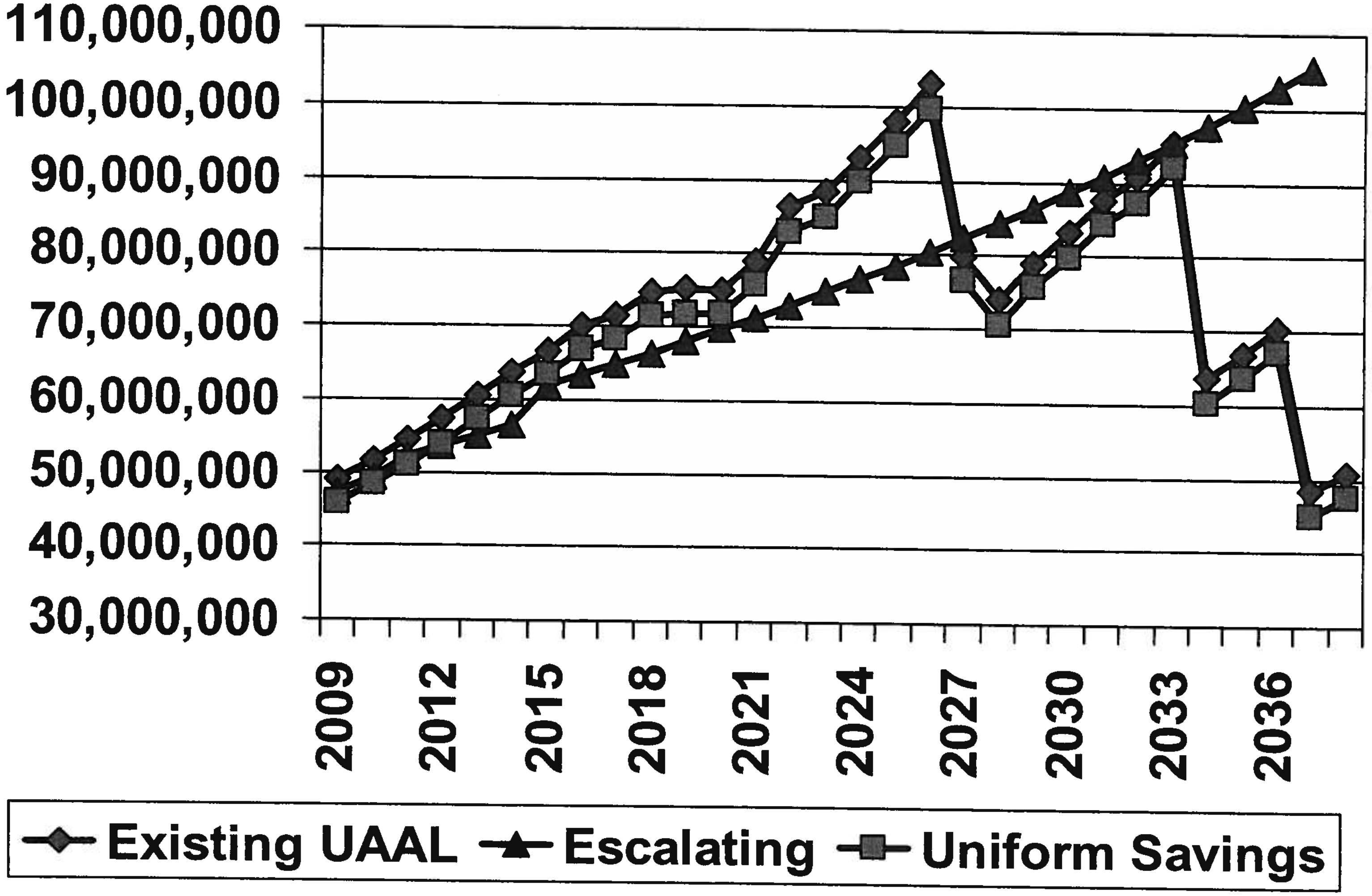
- A previously "soft" commitment is turned into a firm commitment
- There may also be pressure by collective bargaining units and plan members to make payments which tends to firm up the commitment even if there are no bond issues
- Does not guarantee that UAAL is not created in the future as changes in benefits and plan assumptions may create a new liability
- Market returns may not exceed the funding cost of the bonds over the life of the issue, creating an overall loss for the refinancing
  - This cannot be known for certain until the final maturity of the bonds
  - The cost of funding a POB issue is below the assumed investment rate of the fund
  - Thus, if the proceeds from the bonds do not achieve returns greater than or equal to the funding rate, then the entire plan is not meeting its assumed investment rate, which leads to a much broader problem than just the current UAAL

Transaction Outline

RBC Capital Markets

- **City issues up to $800 million in new taxable pension obligation bonds**
- **Due to the typical uneven amortization of the existing UAAL, different methods can be used to smooth out payments and savings including:**
  - using a step-coupon feature, or
  - funding all or a portion of the issue with Capital Appreciation Bonds.
- **Proceeds are placed with the pension trustees to fund the UAAL liability**
- **City retains any savings which can be earmarked for other uses**

Fiscal Year	Alternative One Escalating Payments: Existing Amortization		New Bond Payment		Savings	Alternative Two Uniform Savings: Existing Amortization		New Bond Payment		Savings
2009	49,071,480	$	47,241,806	$	1,829,674	49,071,480	$	45,847,672	$	3,223,808
2010	51,647,733	$	49,240,779	$	2,406,954	51,647,733	$	48,426,942	$	3,220,791
2011	54,359,239	$	52,288,012	$	2,071,227	54,359,239	$	51,136,510	$	3,222,729
2012	57,213,099	$	53,615,480	$	3,597,619	57,213,099	$	53,989,109	$	3,223,990
2013	60,491,062	$	54,976,688	$	5,514,374	60,491,062	$	57,269,336	$	3,221,727
2014	63,666,843	$	56,373,309	$	7,293,535	63,666,843	$	60,446,542	$	3,220,302
2015	66,467,486	$	61,807,352	$	4,660,134	66,467,486	$	63,246,023	$	3,221,463
2016	69,957,029	$	63,279,712	$	6,677,317	69,957,029	$	66,735,555	$	3,221,474
2017	71,417,455	$	64,791,701	$	6,625,754	71,417,455	$	68,195,960	$	3,221,495
2018	74,606,677	$	66,344,498	$	8,262,179	74,606,677	$	71,384,054	$	3,222,624
2019	75,054,375	$	67,939,605	$	7,114,770	75,054,375	$	71,831,441	$	3,222,934
2020	75,025,435	$	69,580,000	$	5,445,435	75,025,435	$	71,805,000	$	3,220,435
2021	78,855,682	$	71,265,000	$	7,590,682	78,855,682	$	75,635,000	$	3,220,682
2022	86,262,669	$	72,990,000	$	13,272,669	86,262,669	$	83,040,000	$	3,222,669
2023	88,325,899	$	74,765,000	$	13,560,899	88,325,899	$	85,105,000	$	3,220,899
2024	92,963,009	$	76,590,000	$	16,373,009	92,963,009	$	89,740,000	$	3,223,009
2025	97,843,567	$	78,465,000	$	19,378,567	97,843,567	$	94,620,000	$	3,223,567
2026	102,980,354	$	80,385,000	$	22,595,354	102,980,354	$	99,755,000	$	3,225,354
2027	79,767,036	$	82,360,000	$	(2,592,964)	79,767,036	$	76,545,000	$	3,222,036
2028	73,891,876	$	84,390,000	$	(10,498,124)	73,891,876	$	70,670,000	$	3,221,876
2029	78,983,387	$	86,470,000	$	(7,486,613)	78,983,387	$	75,760,000	$	3,223,387
2030	83,130,014	$	88,610,000	$	(5,479,986)	83,130,014	$	79,905,000	$	3,225,014
2031	87,494,340	$	90,810,000	$	(3,315,660)	87,494,340	$	84,270,000	$	3,224,340
2032	90,624,871	$	93,065,000	$	(2,440,129)	90,624,871	$	87,400,000	$	3,224,871
2033	95,382,676	$	95,380,000	$	2,676	95,382,676	$	92,160,000	$	3,222,676
2034	63,559,086	$	97,760,000	$	(34,200,914)	63,559,086	$	60,335,000	$	3,224,086
2035	66,895,938	$	100,205,000	$	(33,309,062)	66,895,938	$	63,675,000	$	3,220,938
2036	70,407,974	$	102,715,000	$	(32,307,026)	70,407,974	$	67,185,000	$	3,222,974
2037	48,273,765	$	105,295,000	$	(57,021,235)	48,273,765	$	45,050,000	$	3,223,765
2038	50,808,138	$	107,940,000	$	(57,131,862)	50,808,138	$	47,585,000	$	3,223,138
	Present Value of Savings				36,020,800	Present Value of Savings				41,776,765
	Total Bonds Issued			$	854,129,370	Total Bonds Issued			$	854,128,499


110,000,000
100,000,000
90,000,000
80,000,000
70,000,000
60,000,000
50,000,000
40,000,000
30,000,000
2009
2012
2015
2018
2021
2024
2027
2030
2033
2036
Existing UAAL
Escalating
Uniform Savings

- RBC would need to work with the City to update pension numbers to reflect the most recent actuarial reports
- RBC would need to determine the City's debt capacity and sources available to it to fund this obligation
- Bring back to the City recommended alternatives for funding the transaction

Mitchell N. Owens
Managing Director
Jacksonville, Florida

Mitch Owens, located in our firm's Jacksonville office, has over 27 years of experience in Florida public finance. Mr. Owens has served as Senior Manger, Co-Manager and Financial Advisor to many local governments. His recent underwriting experience includes issues for the State of Florida, Seminole County, Bay County, Escambia County, Indian River County, Santa Rosa County, St. Johns County, New Smyrna Beach Utilities Commission, Orlando, Altamonte Springs, Mt. Dora, Ocoee, St. Augustine, Melbourne and local governmental entities within South Carolina.

Prior to joining RBC Capital Markets in 1981, Mr. Owens was the local Bond Counsel for the City of Jacksonville, where he handled bond issuance matters for the City, its agencies, and independent authorities. Mr. Owens' legal expertise permits him to structure creative solutions to problems which are feasible from a legal perspective, saving his clients time and money.

Jeff Green
Director
St. Petersburg, Florida

Mr. Green joined RBC in August 2007 after serving as the Chief Financial Officer for the City of Fort Myers Florida. In this role he was responsible for all aspects of the city's financial operations including purchasing, debt and treasury management, budget and general accounting. Mr. Green worked closely with the Mayor and Council in formulating financial policies and strategic planning, and was active in bringing creative financing alternatives to the City.

Mr. Green has over 25 years of public and private finance experience including the issuance of over $1 billion in debt and equity securities and the completion of over $400 million in corporate acquisitions and mergers.

Mr. Green earned a B.S. in Business Administration from Miami University and is a Certified Public Accountant.


TRUSTEE
POLICE & FIRE PENSION FUND
CITY OF JACKSONVILLE, FLORIDA
JACKSONVILLE, FL