LOUISIANA LEGISLATIVE AUDITOR
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NEW ORLEANS FIREFIGHTERS' PENSION AND RELIEF FUND

A pension fund for 1,300 New Orleans firefighters sustained investment losses of more than $40.24 million in the year ending December 31, 2013, including a $15 million write-off on an open-ended investment fund registered in the Cayman Islands that went bankrupt, and several loans that may not be collectible, a new report shows.

The information was included in an audit performed by the New Orleans accounting firm Duplantier, Hrapmann, Hogan and Maher, LLP. The audit report was released Monday by Legislative Auditor Daryl Purpera's office.

The reported $40 million in losses could affect the members of the firefighters' "new" pension system. The older system, which has 563 members, showed a gain of $1.24 million in its investments.

Members of the "old" system include firefighters employed by the city of New Orleans prior to January 1, 1968, who can retire with 20 years of fire service regardless of age. Members of the "new" system include those who joined the fire department after December 31, 1967, or those in the older system who switched coverage to the newer system. Members of the new system may retire with 12 years of service at age 50.

"Total investments decreased approximately 24.46 percent in the new system and increased approximately 5.23 percent in the old system," according to the report released by the state auditor. "The decrease in investment income is primarily related to the decrease in performance of some of the fund's investments during 2013, as compared to 2012."

The pension funds have holdings in assets that could be considered alternative investments, including investments in real estate such as hotels, shopping centers, and golf courses; investments in limited liability corporations and partnerships; and loans to limited liability corporations and partnerships. The audit reports that many of the loans made to limited liability corporations and partnerships are now in default, or collection is uncertain. The funds had investments in companies with projects in Louisiana, Idaho, Florida, Mississippi, Texas and Mexico.

Auditors said the new system has net assets "available for benefits in the amount of $84,775,908" with an actuarial accrued liability of $423.8 million. "A large percentage of the new system's investments are long-term positions and are not liquid," the report said. "This may have a negative impact on future cash flows."

The report said that the new system is less than 29 percent funded for its members, while just under 12 percent of the old system is funded.

More than $81 million of the pension funds' investments of $133.6 million at the end of the year were in non-traditional investments, including loans ($10.58 million), partnerships ($12.98 million), limited liability corporations (more than $7 million) and real estate in Louisiana and out of state (more than $50.5 million).

The report said that as a way to assure the fund is administered with "care, skill, prudence and diligence," the pension fund board shall not invest more than 65 percent of the total portfolio in common stock.

The pension fund is now suing the bankrupt Cayman Island fund and some of its "various owners" and third-party providers to recover some of the $15 million. "The fund also expects recovery through the bankruptcy proceedings," the report said. "The value of such recovery depends on the bankruptcy trustee's completion of the liquidation process which could be a protracted period, with substantial unknown expenses to be incurred. . . . It is uncertain as to the value of any remaining assets in addition to substantial unknown expenses which will be incurred."

The report said the pension fund invested $3 million in a limited liability corporation designed to operate and manage a retail shopping center in Coconut Grove, Fla., but it took a $2.5 million loss on the investment. The firefighters' pension fund also committed $1 million to a limited liability corporation created to manage a shopping center in Daytona Beach, Fla., but sold its investment by the end of last year and took at least a $506,000 loss as its share of the company's net losses.

The pension fund committed $750,000 to a corporation formed to own and operate a hotel in Mexico, and by the end of last year recorded net income of more than $293,000 on the investment.

The report said the pension fund originally made 11 loans totaling more than $20 million and at least seven of them are in default, including a $2.3 million loan to a Metairie hotel interest. "The loan is currently in default and deemed uncollectible," according to the report. The pension fund also loaned $5 million to American Pension Consultants LLC, but at the end of 2013, the balance was more than $1.6 million. “Interest is not being accrued on the note as collectability is deemed to be uncertain.”

The report said more than $700,000 in the firefighters’ pension fund was loaned to three different movie productions. Those loans are now in default. The fund also committed almost $5.4 million to a partnership formed to invest in “emerging clean energy, clean water and other clean technology companies. The fund’s share of the partnership loss for 2013 was $713,666.

The pension fund also includes a 100 percent ownership interest in Corner Pocket LLC, formed to develop property in Boise, Idaho; a 99 percent interest in Lakewood Restoration Partners, Ltd, the company that acquired and developed Lakewood Country Club in New Orleans; a 99 percent interest in Austin Falconhead, LP, an Austin, Texas company that owns and operates Falconhead Golf Club in Austin; a 99 percent interest in Americus Real Estate Fund I Ltd., a real estate fund designed to acquire commercial real estate property to be occupied by public sector tenants; and a 64 percent interest in Sadie Creek Commons LLC, formed to acquire an 11.41-acre parcel of commercial real estate in Meridian, Idaho.

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On Twitter: N.O. firefighters’ pension fund lost more than $40.24 million in 2013.