

**City of Delray Beach
Police and Firefighters' Retirement System**

**Minutes of
June 18, 2008**

Members: Off. Jeroloman, Capt. Phillips, Lt. Liguori, Mel Sacharow, Adam Frankel,
Asst. City Manager Doug Smith

Steve Cypen, Board Counsel
Benefits USA - Pete Prior, Livia Nixon and Althea Leigh-Lodge

Absent: Chief Giaccone, Lt. Tabeeck, Sgt. Myers

Guests: Mike Welker, Bogdahn Consulting; Brad Hendrichs, Foster & Foster;
Karen Schell, Finance Dept.

Off. Jeroloman, Chairman, called the meeting to order at 2:05pm. Roll call was taken of members and guests. Off. Jeroloman suggested that the agenda be amended to add Discussion of Lost Interest in DROP Accounts.

Lt. Liguori made the motion to approve the agenda as amended. Mr. Sacharow seconded the motion. None opposed.

1. Approve Minutes of April 30, 2008 Meeting:

The minutes were review and only grammatical changes were made to the original. Lt. Liguori made the motion to approve the minutes. Mr. Smith seconded the motion. None opposed.

2. Steve Cypen, Board Counsel – Pending and Potential Litigations:

Smith Barney – The Tolling Agreement is in effect until August 2008. Smith Barney has been voluntarily providing documents.

Overtime (99-1) – The City has moved for Summary Judgment (the court would decide the case without a trial). The State has only a few days remaining to file a Summary Judgment. The court will hear the case in October 2008.

Certification – Mr. Cypen stated that Lt. Liguori had requested a cost updated summary. The actuary is unable to prepare the summary because the City refused to provide certain data. If there were other ways to obtain the information, the cost could be determined and the City would be able to make a decision to either settle the case or proceed. The City would probably settle the case if the numbers were substantially lower.

Lt. Liguori requested that Brad Hendrich sent him an e-mail, and copy Karen Schell, Finance, indicating what information is needed to prepare the cost summary.

Ordinance Language-Service/Hire Date and Buy Back of Prior Service – Mr. Cypen stated that Section 33.689 does not adequately express the meaning of buy back. For consistency purposes, it is important to know how the Board had previously interpreted the ordinance.

Lt. Liguori stated that when the former pension administrator (PRC) prepared the calculations they included the cost of the COLA (moving the hire date back by the number of years purchased). Presently, the Board's interpretation (not policy) of the buy back provision does not take into consideration the purchased time.

Mr. Cypen stated that being unaware of what the section intended, his interpretation of the ordinance would be for the Board to consider the change of hire date to reflect the number of years purchased by the member.

Off. Jeroloman stated that a distinction should be made between when the City opens a window which is an unpaid credit of time and when an employee pays to receive the full benefit.

Lt. Liguori made the motion that the record should be corrected and conformed to the meaning and intent of Section 33.689 - to provide to employees who have adjusted hire dates be considered credited for purposes of Section 33.689. Mr. Sacharow seconded the motion. None opposed.

Mr. Smith asked Karen Schell to explain the procedure used by the Finance Department when determining a service/hire date?

Ms. Schell stated that the hire date does not change; and the service date is used to calculate pension benefits. In most cases, the service and hire dates are the same. Should there be a purchase of military or prior service then the service date is changed to reflect the credited years.

Ms. Schell gave the following example - If an employee were to work for City for 5 years and not vested he/she would probably received a refund of pension contributions. If in a year they were to be rehired they could then buy back the time for the amount they received plus interest for the years they were not employed by the City.

Don West (Retiree, letter dated 5/21/08) - Mr. Sacharow made the motion to table the letter until the July 16th meeting, and give Mr. Cypen time to review the letter and provide the Board with an interpretation. Lt. Liguori seconded the motion. None opposed.

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DG Capital, Errors and Omission Insurance – Mr. Cypen stated that he had no concern with the commitment DG Capital made to increase the coverage by December 31, 2008.

IRS Plan Documents Necessary to Maintain Tax-Qualified Status (Re: Cypen & Cypen letter dated 6/06/08) – Mr. Cypen stated that his firm is partnering with the law firm Holland & Knight (Robert Friedman, Esq.) who has agreed to prepare the information for a fee of \$250/hr. He suggested that the Board accept a proposal and consider a cap of \$25,000 (100 hours). He stated that the IRS is probably investigating Section 415 compliance.

Mr. Sacharow made the motion to retain Holland & Knight (Robert Friedman, Esq.) to assist in complying with the IRS; and the cap would be \$25,000. Should the cost exceed the cap, Holland & Knight would be required to contact the Board. Lt. Liguori seconded the motion. None opposed. (Note: Mr. Cypen will contact Holland & Knight and request that Mr. Friedman provide the Plan Administrator with an engagement letter.)

Lost Interest on DROP Accounts – Lt. Liguori stated that he would be speaking on behalf of a member who had requested a DROP calculation in November 2007 with retirement to commence March 1, 2008. Due to the logistical problems with getting payroll data, the calculation had not been provided. He stated that the member feels that he should be entitled to interest on his monies based on the performance of the Plan.

Mr. Prior stated that he was still trying to obtain the payroll data from the City. Once the data are received would be able to verify the accuracy of the calculation prepared by Scott Baur, PRC. After conferred with Brad Heinrichs, it would be possible for Foster & Foster to prepare the calculations. He stated that as of yet, the City had provided him with a password or username.

Mr. Heinrichs stated that there would be no problem with the actuary preparing the calculations; but they would need to receive the payroll data.

Ms. Schell stated that if the payroll data are not downloaded every pay period, it is overridden. The City's MIS department would have to recreate the information. She stated that the City had forwarded history data on the person in question.

Mr. Smith stated that he would look into the situation and report back to the Board.

Mr. Cypen stated that with regard to the member who is requesting lost interest on his DROP account, he stated that if the administrator does not have the data the pension board is unable to do its job. He recommended that the Board not consider this request for retro activity.

3. Mike Welker: DG Capital Soft Dollars/Trading Procedures, Review Asset Allocation and Cost, FISCO Presentation:

DG Capital, Soft Dollars and Trading Procedures (Gary Williams & Kim Voss) – Ms. Voss stated that the compliance program governs how DG achieves best execution for clients. The transaction cost is 2 cents, and providing research services added value to the investment strategy. By using soft dollars, it forces the process of reviewing each service to assure that it qualifies as research or brokerage under Section 28(e) Safe Harbor.

Mr. Cypen stated that the issue is not the Section 28(e) Safe Harbor, but instead the Board's policy which does not permit the use of soft dollars.

Ms. Voss stated that not having the availability of soft dollars would hinder their ability to use full service brokers. DG is able to unbundle the research costs used for full service brokers, and lowers the cost for the actual value of the research that helps negotiate the commission rate. They are able to trade through ECN's (Electronic Crossing Networks) and alternative trading that works at 2 cents commission (1 cent is earning a soft dollar credit and the other cent is execution). She stated that generally a full service broker would not accept a check from an investment advisor because they bundle their research within the execution.

Mr. Williams stated that a report was run on a similar sized portfolio and the order of magnitude was roughly 12% of the overall commissions, and the trading activity was approximately \$4500 (2-3 basis points). DG is not setup to segregate one account outside of the overall program.

Mr. Cypen asked if they would adjust the fee; and Mr. Williams stated that they would prefer not to.

Mr. Cypen stated that the RFP sent to potential investment managers had stated the use of soft dollars was not allowed. He suggested the Board consider requesting DG Capital to provide a quarterly report that would disclose the use of the funds soft dollars. He stated that he is concerned with the fact that a message was sent to potential managers that the plan does not allow the use of the funds soft dollars. Those managers may or may not have participated in the response or bidding process due to that provision.

Mr. Welker stated that Bogdahn was aware that DG used soft dollars, but from their perspective the average commission of 2 cents a share was below the industry average and their returns were very good.

Mr. Williams stated that a soft dollar quarterly activity report would be provided.

Mr. Welker stated that the question of soft dollars was not part of the original questionnaire. The original 7 managers presented to the Board for consideration were not limited to any soft dollar use. Only the 3 potential managers received the questionnaire, and were made aware of the soft dollar restriction. He stated that no potential manager withdrew their proposal or was disqualified due to the restriction. After discussion, the Board agreed to let DG utilize the funds soft dollars.

Mr. Welker stated that based on new values the DG allocation was \$17.3 million (\$15 million was estimated at the April 30, 2008 meeting).

Review Asset Allocation for Period Ending June 16, 2008 –

Asset Allocation - Period 6/16/08			
Total Fund Value \$115,469,358			
	Current Asset \$\$	Current %	Target %
Equity	63,956,749	55.4	60.0
Alternative	5,344,000	4.6	15.0
Real Estate	6,250,000	5.4	5.0
Fixed & Cash	39,918,609	34.6	25.0
Equity Managers			
Delaware	18,687,165	29.2	33.3
ICC Growth	27,053,760	42.3	41.7
Pioneer	5,406,397	8.5	8.3
WHV	6,809,427	10.6	8.3
Voyager	6,000,000	9.4	8.3
Bond Managers			
ICC Bonds	33,493,194	83.9	80.0
Mutual of America	6,282,334	15.7	19.6
R&D Account	143,081	0.4	0.4
Alternatives			
Income Alternative	4,729,000	8.8	33.33
Timber (RMK)	615,000	1.2	16.67
Timber (Molpus)	0	0	16.67
Real Estate			
American Realty	6,250,000	100	100.0

Rebalanced Portfolio							
	Current			Over/			
	Assets\$\$	Current %	Target %	Under\$\$			
Equity	69,281,615	60.0	60.0	0			
Alternative	5,344,000	4.6	15.0	11,976,404			
Real Estate	6,250,000	5.4	5.0	-476,532			
Fixed & Cash	34,593,743	30.0	25.0	-5,726,404			
	Current			Over/			
	Asset\$\$	% Of Class	Target %	Intra Asset	%Total	Target%	Under\$\$
Equity Managers							
Delaware	17,320,404	25.0	25	0	15.0	15.0	0
ICC Core Multi Cap	11,546,936	16.7	17	0	10.0	10.0	0
DG Capital - Growth	17,320,404	25.0	25	0	15.0	15.0	0
Rigel Capital	8,660,202	12.5	13	0	7.5	7.5	0
Pioneer Value	5,773,468	8.3	8	0	5.0	5.0	0
WHV	4,041,428	5.8	6	0	3.5	3.5	0
Voyager	4,618,774	6.7	7	0	4.0	4.0	0
Bond Managers							
ICC Bonds	30,000,000	86.7	80	-2,325,006	26.0	20.0	-6,906,128
Mutual of America	4,450,662	12.9	19.6	2,329,711	3.9	4.9	1,207,336
R&D Account	143,081	0.4	0.4	-4,706	0.1	0.1	-27,611
Alternatives							
Income Alternative	4,729,000	8.8	33.3	-2,947,667	4.1	5.0	1,044,468
Timber (RMK)	615,000	1.2	16.67	275,667	0.5	2.5	2,271,734
Timber (Molpus)	0	0	16.67	890,667	0.0	2.5	2,886,734
Real Estate							
American Realty	6,250,000	100	100.0	0	5.4	5.0	-476,532

Mr. Welker stated that he was working with Pioneer to determine if an all cap product could be created that would blend with Delaware (approximate allocation of \$5.5 million). He suggested that the Board review the Pioneer All Cap product, along with others, to determine which would be the best fit in the portfolio.

FISCO Presentation (Bond Hedge Fund) – Income Plus Fund, LP: Invests in conservative government backed fixed income securities and utilizes traditional revenue enhancement techniques to acquire additional premium income. The objective is to achieve absolute positive returns in excess of those available through conventional investments in the public government fixed income market.

Fund Performance

- 2007 - Returned 14% net of fees
- 2006 – Returned 11% net of fees
- 2005 – Returned 9.7% net of fees

Fund Characteristics

- Short maturity enhanced Government fixed Income Fund
- Absolute return objective of 9% to 11% annually
- Low volatility
- No money borrowed to sell or purchase options
- Active monitoring risk management
- Low correlation to traditional asset classes

Strategy

- Passive: The fund is anchored in a 4 year laddered portfolio of US government securities for capital protection and liquidity
- Active: Additional premium income is generated by selling significantly out of the money put and call options on the S&P500 Index, historically producing approximately 98% probability of success
- Use 'European style' options, cash settlement only on date of expiration
- Options are never sold more than 30 days from expiration
- Sell balanced number of puts and calls

Investor Benefits

- Monthly liquidity for contributions and withdrawals
- No lock up period
- Income can be distributed on a quarterly basis
- Transparency through custodial website

Summary Overview

- Minimum Investment - \$5 million
- Contributions/Withdrawals – Monthly with 20 day notice and no lock up period
- Income Distribution – Quarterly basis
- Management Fee – 1.0% annually
- Incentive Fee – 20% of net return in excess of the Lehman Brothers 1-3 year Government Bond Index

The Board agreed to table further discussion to the July 16th meeting.

GTS Transition Manager – Mr. Welker stated that the present GTS contract does not allow for additional transition managers. The Board agreed to have GTS manage future fund transitions.

4. Brad Hendrichs – Foster & Foster, Experience Study Review

Mr. Hendrichs stated that for the first time the \$250,000 interest on the benefit enhancement account was included in the Annual Report (Page 6A).

The 2006 Valuations Report that was originally prepared by GRS was recreated by Foster & Foster; and given the assumptions used by GRS the numbers were matched within 1.5%. If it were necessary to use the GRS number to calculate contribution requirements the difference would be approximately .2% to .3% of payroll. In actuarial terms, these numbers are very close. The assumptions that are used by the actuary for the evaluation are the responsibility of the Board of Trustees.

Mr. Hendrichs stated that the experience study was determined as of 10/01/2006. In the course of the analysis, he compiled plan experience from the annual valuations performed since 10/01/1982 (25 years). The purpose of the study was to review the current actuarial assumptions to determine what changes, if any, are necessary in order to achieve the objective of developing costs that are stable, predictable and represent their best estimate of anticipated experience. The ultimate cost of the plan is independent of any actuarial assumptions or methods. The cost will be the sum of the benefits paid from the plan and the administrative expenses incurred, less any net investment gains received. The specific assumption investigated included salary increases, investment return, termination rates, mortality rates, retirement rates and actuarial cost methods.

Mr. Hendrichs discussed each section of the report and provided the Board with his recommendations.

Salary Increases – The current 6% salary assumption is somewhat aggressive relative to the actual increases over the 25 years ending 9/30/2006. There appears to be justification for increasing the rate based on historical evidence. Due to possible long range budgeting considerations, it is recommended that the Board invite input from the City regarding anticipated future increases. Recommendation: The analysis included an increase in the salary scale assumption from 6% to 7%, which is more consistent with the average over the last 5 years. The impact of this change is an estimated \$515,000 or 3.4% of payroll increase (City) in annual cost due to larger projected benefits.

Investment Returns – The investment returns during the last 15 years have fallen short of expectations. The 8.5% assumption (net of fees) used during this period was aggressive when compared to the 8.3% gross average. It is important to note that the average did not include fees. The average return over this period could be reduced by 50 to 100 basis points if fees paid during this period reduced the investment returns.

Past performance may not be a true indicator of future results. Recommendation: The advice of the performance monitor be sought in order to determine whether the current asset allocation and anticipated returns for the capital markets justifies any revision. If an 8.25% return is a more realistic expectation and is subsequently adopted by the Board, then there will be an increased funding requirement of \$453,000 annually or 3% of payroll.

Turnover Rates – Recommendation: Proposing a slight increase to the turnover assumption in anticipation that future experience will more closely mirror experience realized since 10/01/2002. The study showed separate rates for the fire and the police to reflect the experience difference between these two groups. The approximate annual cost decrease associated with changing the turnover rates is \$354,000 or 2.3% of payroll.

Mortality Rates – Currently, it is assumed that mortality rates follow the 1983 Group Annuity Mortality Table. This table is outdated. Recommendation: Change to the RP 2000 Mortality Table (Combined Healthy) with no projection. The annual cost increase associated with changing to the new mortality table is \$93,000 (0.6% of payroll).

Retirement Rates – The plan offers the option to enter the DROP once the member has at least 20 years of service. The majority of participants are electing to either retire or enter the DROP at some point between 20-25 years of service (regardless of age). Based on experience realized since 10/01/2002, the average service at retirement is slightly above 23.0. Currently, GRS assumed that members would retire with around 20.5 years of service. Recommendation: Change the retirement rates to reflect the later than assumed retirements. The approximate annual cost decrease associated with changing the retirement rates is \$114,000 or 0.8% of payroll.

Actuarial Cost Method – The plan currently uses the Entry Age Normal Actuarial Cost Method, where actuarial gains and losses are identified and amortized over a 30 year period. This methodology typically lends itself to more stability as a percentage of payroll, which is the primary goal for funding defined benefit plans. Over 90% of the public pension plans in Florida use this method. Recommendation: Make no change to the cost method.

Funding Requirements for Assumption Changes – Mr. Hendrichs stated that the impacts of the proposed changes on the results of the 10/01/2006 actuarial valuation (as applicable to the fiscal year end 9/30/2008) are as follows:

	<u>City Funding as % of Payroll</u>	<u>Change</u>	<u>Increase (Decrease)</u>
Current Assumptions	37.0%	N/A	N/A
(A) 7% Salary Scale	40.4%	3.4%	\$515,000
(B) 8.25% Invest. Return	40.0%	3.0%	453,000
(C) Turnover	34.7%	(2.3%)	(354,000)
(D) Mortality Rates	3.76%	0.6%	93,000
(E) Retirement Rates	36.2%	(0.8%)	(114,000)

All Change (A) – (E)	41.3%	4.3%	646,000 (City Increase)
All Changes Except (B)	38.2%	1.2%	185,000 (City Increase)

Lt. Liguori made the motion to change the assumptions as follows: (which reflects a 1% cost savings to the City):

Salary Increases	6.25% (from 7.0%)	\$128,000
Investment Returns	8.4% (from 8.5%, w/lowering of 10 basis points per year for 4 years.	\$180,000 of cost, 1.2% of payroll.)
Turnover	No Change	
Mortality	No Change	
Retirement Rates	No Change	
Disability	Lower by half the current rate	

Mr. Frankel seconded the motion. Roll call vote: Off Jeroloman-Yes, Lt. Liguori-Yes, Mr. Sacharow-Yes, Mr. Frankel-Yes, Capt. Phillips-Yes, Mr. Smith-Yes. Unanimous, motion passed.

5. Off. Jeroloman - Proposed Presentation to City Staff on Overtime, Certification Pay and Benefit Enhancement:

Off. Jeroloman stated that the 175-185 premium tax monies for 2007 were approximately \$1.8 million. The 1993 contract allowed for \$504,000 for extra benefits; and the 99-1 (Overtime) put a new threshold of \$830,000. The difference between the two is a savings of \$326,000 that could be used to offset the City's cost. The \$326,000 could be used to help pay for the cost of the overtime and the certification pay. With the additional 175 monies received from Gulfstream/Highland Beach (approx. \$87,000 per month) the amount could be anywhere from \$400,000 to \$1 million. The total of extra monies could be approximately \$2.2 to 2.8 million. After deducting the \$504,000 for extra benefits, the approximated remaining monies would be \$1.3 million. It would also be possible to give the City an additional \$830,000 to help pay the percentage of cost for the overtime/certification pay.

Off. Jeroloman stated that Trish Shoemaker (Division of Retirement) informed him that 99-1 went into effect on 3/12/1999. Anyone who retired from that date to present would be entitled to overtime hours being added to pension. The cost to go retroactive to 1999 would be costly and diminish the benefit; his proposal would be a prospective approach. Presently, and until there is a determination made on the pending litigation, there is approximately \$2.2 million dollars held in the account to fund the 99-1 overtime issue. Since the inclusion of overtime would be going forward, the older retirees would not be required to make the 6% contribution for the benefit.

Off. Jeroloman stated that his proposal would allow a maximum of 200 overtime hours instead of 300; and current employees would pay the 6% for up to 200 hours. An actuarial report would be prepared to refigure the overtime and assure the benefit enhancement is stable. The number of overtime hours permitted would only fluctuate for current employees.

Off. Jeroloman stated that the overtime issue affects only police officers and the 185 monies could be used. His proposal would be to include both police and fire (certification pay) and the entire amount of money would be used to fund benefits. He stated that for either retiree or active ranked police officers the following would apply: chief/majors do not get overtime, and captains and lieutenants get detail. An overtime assumption could be calculated on the amount of overtime worked by officers and sergeants, and lieutenants would receive 50% of that amount. The captains could receive 50% of the lieutenants' amount. The fire chief /assistant chief do not get overtime; battalion chiefs receive overtime and could receive 50% of what would be given to lieutenants/firefighters.

Off. Jeroloman stated that Ms. Shoemaker liked the proposal, but thought the City should realize that if they win the lawsuit, which the pension board is on the side of the City, the funding of a 4% COLA could be realized and the total of the excess monies would then fund the overtime hours. The City would have to pay a percentage of payroll. If the City loses the lawsuit, then the 300 hours of overtime would have to be funded. Utilizing his proposal, there would be no cost to the City, and the lawsuits would be settled. He stated that he had spoken to both Fire/Police unions, a number of retirees and received positive responses. If the PBA agrees to drop the lawsuit the State would do the same.

6. Lt. Liguori – Pension Contribution Sworn/Non-Sworn Employees:

Lt. Liguori asked if persons in the police academy are sworn. Capt. Phillips stated that they are not sworn until they graduate from the academy. Lt. Liguori stated that the ordinance states 'all sworn police and firefighters will be part of the pension system'.

Mr. Hendrichs stated that while in the academy, and under 175-185, they can't be part of the pension system or receive benefits; and if pension contributions were deducted they should be refunded. While in the academy, they can be members of the general employee pension system until they graduate and then transfer the service over to the police pension system.

This item will be placed on the July 16th meeting for further discussion.

7. Other Business:

-Ratify Payment of Warrants 1152 through 1158:

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Warrant 1152: Travel Per Diem, FPPTA Conference (Orlando), June 29-July 2, 2008 - (\$163.35 each to Melvin Sacharow, Ralph Phillips, Charles Jeroloman, Joseph Liguori and Adam Frankel)

Warrant 1153: Normal Retirement Benefit Enhancement for July 2008 – Elario Garito \$2656.41, Lennis Gillard \$4907.14, Charles Hardin \$4817.72, Joseph Kopel \$3128.44, Gerald Pitocchelli \$5040.84, Frank Ryncarz \$4107.54 and Wayne Yoder \$3666.06

Warrant 1154: DROP Retirement Benefit Enhancement for July 2008 - John Hansen \$4688.91

Warrant 1155: Travel Reimbursement (Brady Myers, 137.98 State Conference, May 12-14, 2008)

Warrant 1156: Commence Normal Retirement Pension Benefit Effective July 1, 2008 - Joseph L. Schroeder (\$8733.44)

Warrant 1157: Platinum Plus for Business (\$3580.79), FedEx ((\$64.34), Anne Woods (\$21, Office Supplies), AT&T (\$102.19)

Warrant 1158: Wenworth, Hauser & Violich (\$14,643 Investment Management Fees 01/01 to 03/31/08), Pioneer Investment Management (\$4285.85 Investment Management Fees 01/01 to 03/31/08)

-Approve Payment of Warrants 1159 through 1164:

Warrant 1159: Normal Retirement Benefit Enhancement for August 2008 – Robert Brown \$2516.70, Alfred Damato 2619.22, James DeCarie \$2624.83, Kenneth Herndon \$2568.06, Thomas Judge \$2935.04, Vincent Mintus \$3171.85, Jeffrey Rancour \$3326.10, David Ringersen \$3292.92 and Richard Senff \$2856.65

Warrant 1160: DROP Retirement Benefit Enhancement for August 2008 – Richard Ackerman \$6370.97, Edward Meissner \$4839.48 and Joseph Weitman \$3920.81

Warrant 1161: Single Lump Sum DROP Payout – James M. Decarie \$17,000

Warrant 1162: FedEx (\$139.36, Account #2107-3951-3), AT&T (\$208.22, Account #511-0450), Charles Jeroloman (\$23.62 Reimbursement for UPS Charges Order #22209141)

Warrant 1163: Platinum Plus for Business (\$9158.58 FPPTA Registration Fees and Hotel Reservations – NCPERS in New Orleans, State Conference in Tallahassee and FPPTA Conference in Orlando)

Warrant 1164: Barry S. Balmuth, PA (\$825, Professional Services Rendered, Invoice #13236)

The meeting adjourned at 6:10pm.