CITY OF PORT ORANGE
FIRE AND RESCUE PENSION BOARD OF TRUSTEES QUARTERLY MEETING
MINUTES
Monday, February 23, 2015, 4:30 P.M.

Members Present:	Jim Reardon Bob Ford Rick Gherlone Rhett Wilgers
Members Absent:	Josh Moore
Plan Administrator:	Sheila Hutcheson
Plan Attorney:	Scott Christiansen
Consultant:	Frank Wan, Performance Monitor (BCA)
Plan Actuary:	Patrick Donlan, Foster & Foster (F&F)
Public:	James Halleran, James Moore Certified Public Accountants & Consultants
Plan Member:	John Ryan
Plan Retiree/City Vice-Mayor:	Drew Bastian

CALL TO ORDER/ DETERMINATION OF A QUORUM

The meeting was called to order at 4:33 p.m. by Chairman Gherlone. There was a quorum with four members present. The Board and consultants welcomed new Trustee Rhett Wilgers

APPROVAL OF MINUTES - Quarterly Meeting - November 17, 2014

Member Ford made a motion to approve the minutes of the quarterly meeting on November 17, 2014; Member Reardon seconded the motion, which passed unanimously.

REPORTS (ATTORNEY/CONSULTANTS

Patrick Donlan, Actuary, Foster & Foster (F&F)

Presentation of 2014 Valuation

Mr. Donlan opened his report with the funding requirements, noting that the City's cost is decreasing, even with the first incremental reduction in the rate of return assumption from 8% to 7.9%. He then reviewed the funded ratios, noting that this now must be calculated using the market value of assets rather than the actuarial value. The amount required to decrease the unfunded actuarial liability was reviewed. The required cost of the City and State combined was $2,888,000; the actual amount contributed was $3.3million, which was a significant over-payment. The four-year average rate of return was 8.0%. The unfunded liability was $18million last year, and this would have decreased to $16million, but with the change in methodology by the State, the final figure is $16,904,000, which is a definite improvement. The Actuary next detailed the impact of each of the Plan's assumptions as either a gain or a loss. In summary, the assumptions on which the valuation is based resulted in a gain of $162,000 (decreasing the funding cost by $162,000). He also reported that there was a 6.6% increase in State monies for this year. Next year, the four-year "smoothed" average rate of returns should be even better, as one year of a lower investment return will be eliminated from the average. Mr. Donlan said that, if the return is 7.9% for the year ending September 30, 2015, the four-year average will increase from the current 8.0% to 10.4%. He said that the "smoothed" number is not what is sent to the State; rather, the State requires the actual one-year return for the report to the Division of Retirement. There is also $16,594, which has been paid in by the City over the required amount; this $16,594 is available to the City to apply to its funding requirement this year, at the City's option. As of this year, the City will be reporting pension liabilities on a different basis, and next year the City will have to show a different liability figure. There is no change in the pension plan, just a change in the reporting method required for the City's annual financial report CAFR). The funded ratio will be 57.68% in the City's annual financial report. Last year, this figure was 51.9%; before that, the figure was about 48%. As was noted earlier in his report, Mr. Donlan again said that for accounting purposes, the new reporting method will use the market value of assets (not actuarial value), which helps the Plan's numbers.

The Actuary's report continued with a discussion of the requirements of SB534 and the reporting on the pension plan for the City's website; i.e., showing a worst and best case scenario of the City's cost based on different assumed rates of investment return. Member Ford asked the time frame required by the State for payment of the unfunded liability, and the period of time is thirty years. Mr. Donlan said that several years ago, the State had requested that the time frame for this payment be twenty years, with a ten-year time frame for gains and losses.

Mr. Donlan advised the Board that, as of this year, the valuation is in two parts: the funding valuation is the first part, and the accounting information is the second part. He also stated, as he has previously reported, the unfunded liability must now be included in the City's CAFR (for bonds, etc.), instead of just as a footnote in the document. Accordingly, this information is now included in the valuation. Member Reardon asked where this Plan's funded ratio ranks in relation to that of other plans. The Actuary said it is in the lower half of plans' funding ratio. F&F prepares a report annually (each summer) detailing the relative position of all of the firm's plans; upon completion of this report, it will be sent to the Administrator who will forward it to the Board. Next, he reviewed the many actions taken to improve the funding ratio; e.g., the decrease in plan benefits, increase in member contributions, higher investment returns, additional funding payments, etc. Ultimately, the goal is to try to reach an 80% funded ratio, but this goal is achieved slowly over time.

Member Ford made a motion to approve the 2014 Valuation; Member Reardon seconded the motion, which passed unanimously.

The member statements will be sent in about two weeks to the Administrator and to the Chairman to distribute to the Plan members.

Consideration of fees for SB534 documents - $3,000 or $3,500 (if Board requests calculations 2% above assumed rate of return)

Mr. Donlan said that SB534, which was enacted a few years ago, requires the valuation to be prepared using five different assumptions; these calculations show the City's additional costs if various assumptions were changed. This bill requires that even changes which would violate State law must be included. After the valuation is completed, F&F has sixty days to complete the additional calculations/analysis for the Board and the State. The City has to include the information on its website. F&F is offering to also include the City's cost if the Plan had a higher rate of return assumption as well as the lower assumption required by the State to be shown, in order to provide a positive picture, instead of only a negative picture. The State would disregard this higher figure, but detailing it on the City's website would provide a better picture (if the rate of return was 2% higher than the actual rate) to the public.

Member Ford made a motion to approve Foster & Foster's fee schedule for preparation of SB534 *documents at a cost of $3500 (to also show a 2% higher assumption); Member Reardon seconded the motion, which passed unanimously.*

Discussion: Correspondence dated January 27, 2015 from Chad Poppell, Division of Retirement

Mr. Donlan discussed the letter from Mr. Poppell, which was provided to the Board, and the basis on which the State's calculation still shows the Plan's funded ratio at 49.9%, using a calculation at odds with the methodology expected to be used. The State removed the DROP assets for their calculation and based it on the 2013 valuation; the rate is above 50% based on the 2014 valuation. Attorney Christiansen asked why the Division chose to send the letter to Plans whose funded ratio was below 50%; the Actuary said there was no rationale, this was just the percentage selected. The Attorney continued by stating that he has a serious objection to sending this information to retirees, as their benefits are not in jeopardy in any way, and the letter would, with no basis, unnecessarily alarm them. Chairman Gherlone said he didn't understand why the letter asks what actions the Board will take to remedy the funded ratio, when the City has control of the plan provisions and funding requirements. The Board has no direct authority. It was noted that there may be some political issues involved in this letter.

Member Ford made a motion authorize the Chairman to sign a letter of response to Mr. Poppell without reference to any notification to members/retirees, noting certain actions implemented by the Board, such as the investment changes and the incremental reduction to the assumed rate of return from 8.0% to 7.5%; Member Reardon seconded the motion, which passed unanimously.

The Actuary will send the revised letter to the Administrator for execution by the Chairman and forwarding to Mr. Poppell.

Declaration of returns

The Attorney explained the statutory requirement that the Board declare the expected returns based on advice from its investment consultants in conjunction with the valuation. In this regard, Performance Consultant Frank Wan was asked to provide his recommendation, which was that it is reasonable that the 7.9% actuarial assumption will be reached in the next year, over the next several years, and over the long term thereafter.

Member Reardon made a motion to accept the consultant's recommendation for the declaration of returns: that the 7.9% actuarial assumption will be reached in the next year, over the next several years, and over the long term thereafter; Member Gherlone seconded the motion, which passed unanimously. The Administrator brought the letter on the declaration of returns (to the Division of Retirement, City, and Actuary) for signature by the Chairman.

Frank Wan, BCA, Performance Monitor

Mr. Wan opened by reviewing his role for the Plan with new Trustee Wilgers. He then discussed the economy, noting gas prices, and international issues. The dollar has risen and the Federal Reserve is not raising rates, which helps the economy. He then began his discussion of the December 31, 2014 report. The return was 3.6% for the quarter, net of fees. The American Realty investment has now been fully funded to the total $1million commitment (as of the last call for capital in the amount of $500,000 on December 31, 2014). The fund had $23,114,414 on December 31, 2014, compared to $22,211,754 on September 30, 2014. The return for the past year was 8.0%, exceeding the assumed 7.9% rate of return. The average return for the past four years was 7.6%/year, net of fees. Mr. Wan reviewed the IPS and the investment allocations. He noted that there are two types of real estate investments: real estate trusts (REIT's) and private real estate, and said that core real estate refers to the actual portion of the real estate that is owned. Next, he detailed the specifics of both types of real estate investments. The Consultant then referred to the IPS, which has been sent to Trustee Wilgers, and reviewed the allocations of all the investment types. Member Reardon asked about the bond investments; they are individual bonds. The report concluded with a review of all the investment managers/returns. Member Wilgers asked about dollar cost averaging with the REITs; Mr. Wan outlined BCA's strategy in this regard. Mr. Wan distributed a handout on MLP's to the Board for possible future discussion/consideration.

Scott Christiansen, Attorney

The Attorney opened his report by confirming that Trustee Wilgers had filed his initial Financial Disclosure Form; Member Wilgers confirmed that he had filed it as required. Next, Mr. Christiansen reported on securities monitoring services (based on request from Morgan & Morgan) that had been discussed previously. He confirmed that the portfolio has only a couple of investments that are not mutual funds, and PNC provides monitoring services for investments they hold. Accordingly, it is not necessary to obtain this service separately. The Administrator will advise Morgan & Morgan.

The next item discussed was the status of the Board's pending ordinance, which is still waiting for the City Attorney's review. The City has an ordinance underway on early retirement as a result of an arbitration decision. First reading has already occurred, and the ordinance is scheduled for public hearing/adoption on March 3, 2015. The executed ordinance will be sent to the Board, Division of Retirement, and the Attorney following its adoption.

Legislative update

Mr. Christiansen reported that the legislature has some pre-filed bills: SB 172 and HB 341, which are similar to bills from last year that neither the House nor the Senate acted upon. These two bills are the same as the Senate Bill last year, but without any reference to FRS. As of now, this has gone through one Senate committee and one House committee, and will continue to proceed through various committees, during which much can happen. The Attorney will have more information in this regard at the May meeting. He noted that, last year, the bill was supported by The Florida League of Cities, but not this year. This is probably because most plans are under the Naples letter which allows the City and Union to negotiate how the State monies are used. The proposed legislation does allow this negotiation as long as there is mutual consent reached. However, if the City and Union do not reach a mutual consent as to the usage of the monies, the bill has a convoluted methodology for the use of the monies regarding the defined contribution and defined benefit portions of the agency's plan. The Florida League is supportive of the more liberal approach in the Naples letter. SB242 is also pending, and would require all local law plans in the State to use the FRS mortality table which might increase the funding requirements. The Actuary said it could increase the cost by 2% or so. He also said that SB534 mandates the RPG2000 Mortality Table, and now this proposal would require a different mortality table.

Authorization to prepare Summary Plan Description (SPD)

The Attorney said that the SPD was last approved in August, 2013, but, inadvertently, the increased member contribution was not included. Therefore, the SPD should be updated to include this and any other change; it would be due for the statutorily required (every two years) update later this year in any case.

Member Reardon made a motion to authorize the Attorney to prepare the updated SPD; Member Ford seconded the motion, which passed unanimously.

IRS determination of qualified status for Plan process

The IRS has had an issue regarding the net investment return on DROP accounts, as the Attorney has discussed in the past. Ice Miller, a law firm that specializes in tax qualification for pension plans, which is handling this process in conjunction with Christiansen & Dehner, is still pursuing this issue. The IRS issued an internal memorandum a few months back that said the DROP returns issue isn't a problem. However, Ice Miller has said it is necessary to wait for definitive action from IRS; this DROP account net investment returns issue is officially undecided. There was also a recent follow-up inquiry from the IRS regarding some different issues, which, hopefully, will be resolved soon. The Chairman asked what would happen if the IRS does not rule favorably on the DROP account net investment return option. The Attorney said that, in that case, the Plan would have to be amended so that the DROP account returns were not based on the fund's net return.

The next item was to advise that a table of all the pension forms had been sent to the Administrator detailing each form and its use. Mr. Christiansen concluded by reporting that his firm is reviewing all their clients' plans in conjunction with Ice Miller. He will report back on any changes that might need to be made to our Plan in order to maintain its qualified status. One issue that might be affected is same-sex marriage, which won't be an issue for this Plan as the definition of joint annuitant is not limited to a spouse, but can be anyone.

Sheila Hutcheson, Plan Administrator

- PNC retiree death audit for the quarter ending 12/30/14 - no deaths.
- Investment in the amount of $500,000 was made on December 31, 2014 to American Realty Advisors (third and final call for capital).
- Review of arbitration decision by Attorney Christiansen - this was initiated by the Administrator to ascertain if any action was required on our part.
- The authorized signers' form for PNC (custodian bank) will be signed by the Trustees, based on the current members.
- The after-tax member contributions' exclusion from income tax for retirees for whom the City had recently found some old records were calculated by the Actuary and were sent to the pension bank to begin on January 1, 2015. The retirees were notified of this information.

Member Ford asked the Administrator to keep him posted on training/schools. Ms. Hutcheson advised that the Division's Police/Fire Trustees' School will be in Tallahassee in May, and she will send him information on any other training opportunities. The report concluded with a reminder that the next meeting is May 18.

OLD BUSINESS/NEW BUSINESS - none

DISBURSEMENTS/RETURN OF CONTRIBUTIONS and DEPOSITS

- **DISBURSEMENTS**

1. Sheila Hutcheson, Professional Services - **$5,400.00** (administration fees)
2. Christiansen & Dehner, Professional Services - **$720.10, $1,137.57, $113.70**
3. PNC, quarterly fees for custody: FMI - **$742.80;** SSI -**$305.41;** MCV - **$219.50;** Real Estate - **$153.84**; International - **$354.80;**
4. PNC Asset Management, quarterly fee, 4th quarter, 2014 - **$5,726.57**
5. Fiduciary Management Inc., quarterly fee, 4th quarter, 2014 - **$9,656.00**

6. Burgess Chambers, Performance Monitor, quarterly fee, 4th quarter, 2014 - **$11,027.17**
7. SSI, quarterly fee, 4th quarter, 2014 - **$5102.00**
8. Foster & Foster, actuarial services - **$2,355.00**
9. American Core Realty Fund - quarterly fee, 4th quarter, 2014 -**$1,412.58**
10. Division of Retirement Police/Fire Trustees' Conference, 11/17 - 11/18/14, Trustee Josh Moore: lodging: **$238.00** (corrected amount from $357.00 shown on Nov. 17, 2014 agenda, based on actual two night's lodging – see $103.00 reimbursement deposit below); parking: **$16.00;** mileage/per diem: **$142.00**
11. Fred Price, commencement of early retirement as of Dec. 1, 2014 - lifetime of retiree with first ten years guaranteed - **$1,518.08**/month
12. Mark Vroman, rollover of contribution by non-vested member - **$5,110.01**

- **DEPOSITS**

Division of Retirement Police/Fire Trustees' Conference, 11/17 - 11/18/14, Trustee Josh Moore: lodging refund - **$103.00**

Member Ford made a motion to approve the Disbursements, Return of Contributions and Deposits; Member Reardon seconded the motion, which passed unanimously.

STAFF REPORTS, DISCUSSION, AND ACTION/TRUSTEES' REPORTS, DISCUSSION, AND ACTION /REQUESTS FROM THE PUBLIC/EMPLOYEES PRESENT

James Halleran, James Moore Certified Public Accountants & Consultants, presented an offer for his firm to conduct an audit of this Plan, in the same manner as for the Police Officers' and General Employees' Plans. This audit would be more detailed than the audit prepared annually under the auspices of the City's audit. The Attorney said that the City audit would continue or the Board may wish to separately engage this detailed audit. The fee for this audit would be $12,000 and the audit could be for the fiscal year ending either 2014 or 2015. Member Reardon asked what the benefits of this type audit would be; Mr. Halleran said it would be more detailed. It was the consensus of the Board to consider the audit at the May meeting.

ADJOURNMENT - There was no further business, and the Chairman adjourned the meeting at 6:20 p.m.

Respectfully Submitted:

Sheila Hutcheson, Plan Administrator

Approved:

Richard Gherlone, Chairman