CITY OF PORT ORANGE
FIRE AND RESCUE PENSION BOARD OF TRUSTEES QUARTERLY MEETING
MINUTES
Monday, May 18, 2015, 4:30 P.M.

Members Present:	Jim Reardon Bob Ford Rick Gherlone Josh Moore
Members Absent:	Rhett Wilgers
Plan Administrator:	Sheila Hutcheson
Plan Attorney:	Scott Christiansen
Consultant:	Frank Wan, Performance Monitor (BCA)
Public:	Zach Chalfour, James Moore Certified Public Accountants & Consultants
Plan Members:	John Ryan, Joe Meeske, Mike Nelson
City Staff:	Donna Steinebach, Administrative Services Director Lori Young, Finance Department

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.

APPROVAL OF MINUTES - Quarterly Meeting - February 23, 2015

Member Ford made a motion to approve the minutes of the quarterly meeting on February 23, 2015; Member Reardon seconded the motion, which passed unanimously.

REPORTS (ATTORNEY/CONSULTANTS

Frank Wan, BCA, Performance Monitor

Mr. Wan opened by discussing the "quantitative easing" in the economy. The performance has been excellent for the quarter and the fiscal year to date. He then began his discussion of the March 31, 2015 report. The return was 2.8% for the quarter, net of fees. The fund had $23,768,178 on March 31, 2015 compared to $23,114,414 on December 31, 2014. The return for the fiscal year to date is 6.5%; for the past year, it was 8.5%, exceeding the assumed 7.9% rate of return. The average return for the past four years was 7.4%/year and 8.9%/year for the past five years, all net of fees. The convertibles and real estate investment additions to the portfolio in recent periods have increased the return, and performed very well. American Realty currently has an occupied status of over 90%. There are no recommendations for change at this time; the allocations and performance are as they should be. The Federal Reserve has not yet raised rates, but this may change in September. The bonds investments are as they should be for rates and maturity periods.

The next item discussed by Mr. Wan was a notice from the Division of Retirement regarding Rule 60T, which he distributed to the Board, along with charts BCA prepared as requested by the Division. The Actuary had previously informed the Board about GASB rules/requirements and now BCA has received this direction from the Division as to information needed from the consultant. This information will be posted on the City's website with other materials required by GASB 67 and GASB.

Mr. Wan's report concluded with his request that the Board approve execution by the Chairman of the Custodian Client End Authorization form he distributed. BCS has hired a vendor for data collection, which requires authorization for the vendor to receive the information from the custodian bank. Attorney Christiansen has reviewed the form and said there is no issue with the Board proceeding in this regard.

Member Ford made a motion to authorize the execution of the Custodian Client End Authorization form by the Chairman to allow data collection by the vendor designated by BCA; Member Moore seconded the motion, which passed unanimously.

Scott Christiansen, Attorney

Legislative update

Mr. Christiansen reported that the legislative session has now ended. There are some bills that have been adopted and have been sent to the Governor for action. One bill (with changes to Chapters 175 and 185) has been officially submitted to the office of the Governor; there is a two-week window of time for the Governor to sign the bill, not sign, or veto the bill. Another bill, which would require usage of the more conservative FRS mortality table by all public pension plans, could have some additional cost impact; this bill has not been officially sent to the Governor but is expected to be sent. If the mortality table is changed, it would be effective as of the 2015 valuation.

There is another bill which didn't pass last year, due to differences in the House and Senate versions of the bill. This bill provides for the use of the State monies based on City/Union agreement, but, if no mutual agreement is reached, there is a convoluted procedure for the use of the State monies for benefits, including a defined contribution component (such as a share plan). Under a share plan, at retirement, a retiree receives a lump sum payment from the share plan. The share account is invested along with the rest of the fund until the retirements. As noted above, the Governor has a two-week window of time to sign the bill, not sign, veto the bill, or allow it to become law without his signature, at the end of the two-week period of time. Unless the Governor vetoes the bill, and the veto is not overturned, this bill will become law and would have to be added to pension plans. Neither the Governor nor the Florida League of Cities support this bill, as it isn't as favorable to the sponsor (City) as the "Naples" letter is with respect to the use of State monies. The bill resets the frozen amount of the monies, and the union and city can reach an agreement as to the usage of the monies; however, if no mutual agreement is reached, the law specifies the division of the money by a convoluted calculation for a portion to a defined contribution (DC) component of the plan, and part in the defined benefit component to be used to pay down the unfunded liability. Pension Plans still have to meet the minimum requirements, which include a change in the multiplier from 2.0% to 2.75%. The DC component has to be in the Plan by October 1, 2015, which is unlikely to happen, based on the time frame required by the City ordinance process. Finally, the legislation includes the provision that the Board must adopt and submit an administrative budget to the City Council and to the membership each fiscal year. Unlike past legislative proposals, approval of this budget by the City Council is not required. If there is a change during the year to the budget, it must be reissued at the time of the change, and again at the end of the fiscal year. The budget must also be provided to Plan members.

Chairman Gherlone asked about the 2.75% multiplier; the Attorney said this is part of the minimum requirements that would have to be changed in our Plan. This is how this requirement is at this time, but it will be necessary to wait for the State Division of Retirement's interpretation. The Chairman also asked about the share plan; Mr. Christiansen said that would be negotiated between the City and the Union. Member Reardon asked for examples of share plans, which can be provided based on a number of plans with Christiansen & Dehner.

The Administrator asked if there is a template for the administrative budget; there is no prescribed format. Ms. Hutcheson will develop the budget based on past years' expenses for Board approval at the August meeting so that it can be submitted to the City and the membership by October 1, 2015.

Status of pending ordinances

The Attorney advised that the IRC ordinance is scheduled for first reading on the May 19, 2015 City Council agenda, with the other changes in a separate ordinance that will be considered later.

Approval of Summary Plan Description (SPD)

The Attorney reviewed the requirement for biannual updates to the SPD, noting that the last time it was updated was in August, 2013. There have been some changes since then, which are incorporated in this document. The SPD that he has prepared is his best understanding of the City's ordinance. He also included certain IRS (maximum benefit) changes and an updated Board of Trustees listing.

The changes to the SPD are as follows:

Page 1 - the Fire Chief opt-out provision that has been added to the plan is included under eligibility for membership as is early retirement at age forty with ten years of service, as of a certain date, based on a correcting ordinance enacted by the City earlier this year;
Page 6 - in the first paragraph, there is some rewording for clarity (no change to the rule);
Page 10 - includes the member contribution rates of 7.5% and 8% specified in the union contract, and details the IRS maximum limits of pension benefits (increased from $205,000/ year to $210,000/year);
Page 11 - includes a new paragraph with the 2012 rules governing ex-spouses as a beneficiary; and
Exhibit A has the current trustees listed.

Member Ford made a motion to approve the execution of the SPD for distribution to all current and future Plan members; Member Reardon seconded the motion, which passed unanimously.

The Administrator said she will email the SPD to the City's Human Resources Department for new hires and to the Fire Department for posting on the intranet for current members

Report on IRS determination of qualified status for Plan issued on May 6, 2015

The notice of the IRS' determination of qualified status of the Plan was issued on May 6, 2015, with certain requirements, which are included in the proposed revisions to the Board's Rules Manual. The application was filed in 2011 and the decision was just issued by the IRS. The favorable determination does require some rules changes, as noted below. The determination has now expired, but it shows the Plan was valid as of the filing date. The changes that need to be made are being worked on for another ordinance change. Attorney Christiansen does not recommend re-filing for a new determination as this time, and the IRS may eliminate this process in the future. The Chairman asked about the IRC ordinance that is on the City Council's May 19, 2015 agenda (in relation to the determination letter); the Attorney said the determination is based on the 2011 filing date.

Proposed Addendum to the Operating Rules and Procedures

Certain operating rules need to be changed as required by the IRS determination of qualified status: Rule 20 and Rule 21. Specifically, Rule 20 deals with the administration of DROP and Rule 21 deals with the maximum benefit section of the Internal Revenue Code (IRC). The Attorney said the IRS granted the determination letter discussed above subject to approval by the Board of these rules changes.

Member Ford made a motion to approve the addendum to the Operating Rules and Procedures Manual (Rules 21 and 22) for execution by the Chairman; Member Reardon seconded the motion, which passed unanimously.

Sheila Hutcheson, Plan Administrator

- PNC retiree death audit for the quarter ending 3/31/15 - no deaths reported by PNC.
- 2014 Annual Report has been filed with the Division of Retirement
- Annual Financial Disclosure Forms are due on July 1, 2015 to the Supervisor of Elections' Office
- City's request for studies from the Actuary (at City cost) regarding negotiations and the impact of legislative changes

After this agenda was issued, the City rescinded the request for the cost study of the impact of legislative changes, based on the Actuary's recommendation that it be deferred until the specifics of the law have been determined.

- Ratification of interpretation of Plan's benefits (based on 2012 changes by the City) from Attorney and Actuary

There have not been any retirements since the Plan changes that occurred in 2012. The changes have been somewhat confusing and several members who are approaching their retirement eligibility dates have made inquiries as to the specific benefits they would receive at twenty years of service compared to twenty-five years of service, including questions about their cost-of-living, DROP, and supplement benefits. In this regard, the Administrator forwarded their questions to the Attorney and Actuary for review. The Attorney provided an analysis of the specific benefits related to the particulars of each of the two members referenced in the inquiry, which the Actuary concurred with. These documents are in the agenda package and were previously emailed to the Board. The Board is charged with the interpretation and administration of the plan ordinances. The Attorney has provided his understanding of the ordinances prepared by the City after the labor negotiations in 2012; this interpretation was sent by the Administrator to the City advising that will be used unless the City advises that it does not reflect their intent, in which case they have been asked that they clarify their intent. The Board's ratification is requested.

At this point, Plan members in the audience addressed questions on the changes in the Plan. Member Joe Meeske asked Attorney Christiansen about the ordinance interpretation, with respect to DROP at twenty years of service, with no supplement, and at twenty-five years of service, without DROP, but with the supplement. Mr. Meeske said that he had understood from the City that he would receive the same benefits he already had for his first seventeen years of service, with fewer benefits after that period of service. The Chairman said he didn't think that what the City's ordinance provides was the intent of the negotiations, and Mr. Christiansen said he can only interpret the ordinance as written. That is the reason that the interpretation was sent to the City, asking them to advise whether or not the ordinance does, in fact, reflect their intended changes. Mr. Meeske said the City considers DROP as a salary cost, but, it is not a cost issue to the Plan. The Attorney said the DROP program saves the approximate 100% pension cost by the City on members in DROP, so that is actually a huge savings to the City. Member Ford asked how this could be changed; Mr. Christiansen said this could be accomplished by a letter of agreement between the union and the City, followed by an ordinance change that he could prepare. It was the consensus of the Board that Member Ford will meet with the City Manager to discuss this issue of the interpretation of the ordinance. In conjunction with the City Attorney and Administrative Services, the City Manager will be asked if the language in the ordinance accurately reflects what was intended or not. If the ordinance is not what was intended as a result of the negotiated plan changes, then it would have to go back to negotiations to properly address what was intended. Accordingly, it was decided to defer ratification of the interpretation provided by Attorney Christiansen until the August meeting, when Member Ford can report back on his meeting with the City Manager.

- Illustrative benefit calculations (based on 2012 changes by the City)

As a follow-up to the interpretation referenced above, the Administrator has submitted requests for benefits calculations for two members whose normal retirement at twenty years is upcoming. These benefit calculations are to outline the benefits the two members would receive at twenty years and at twenty-five years, so that they can make informed decisions in this regard.

- Letter of response to Chad Poppell, approved by the Board at the Feb. 23, 2015 meeting was mailed in April (no response yet)

The report concluded with a reminder that the next meeting dates are August 24 and the November 16, 2015.

OLD BUSINESS - Consideration of an independent audit by James Moore/Public Accountants & Consultants

Ms. Hutcheson outlined the cost of an independent audit and historical information including the City audit several years ago when Janet Newcomb, PNC, attended Board/City Council meetings to explain questions on the firm's transition raised in the audit. She also pointed out that there was a detailed audit of the benefit calculations on five retiree files in recent years, with no problem. Zach Chalfour, a CPA with the firm, addressed the Board and said the proposed audit would have more detailed testing and would render an opinion, which is not included as part of the City audit. This audit would review internal controls and make recommendations in this regard. The Administrator addressed the pay codes issue in the Police Plan, which are more complicated than those in the Fire Plan, based on the statutory requirement that pensionable earnings for Police Officers include *total* compensation (limited after July 1, 2011 statutory changes), whereas for Firefighters; the definition is *base* compensation. Attorney Christiansen advised that an independent audit is not legally required, and it would be more detailed than the audit that is part of the City's annual audit. It is up to the Board to decide.

Chairman Gherlone made a motion that the Board not engage an independent audit; Member Ford seconded the motion, which passed unanimously.

The Board said this item may be considered in the future.

NEW BUSINESS - none

DISBURSEMENTS/RETURN OF CONTRIBUTIONS and DEPOSITS

- **DISBURSEMENTS**

1. Sheila Hutcheson, Professional Services - **$5,400.00** (quarterly administration fees)
2. Christiansen & Dehner, Professional Services - **$644.30, $994.14, $2,324.14**
3. PNC fees for custody, quarterly fee, 1st quarter, 2015 : FMI - **$757.46;** SSI - **$310.89;** MCV - **$230.94**; Real Estate - **$161.00**; International - **$375.98** (total fees: $1,836.27)
4. PNC Asset Management, quarterly fee, 1st quarter, 2015 - **$5,895.47**
5. Fiduciary Management Inc., quarterly fee, 1st quarter, 2015 - **$9,847.00**
6. Burgess Chambers, Performance Monitor, quarterly fee 1st quarter, 2015 - **$11,862.23**
7. SSI, quarterly fee, 1st quarter, 2015 - **$5109.00**
8. Foster & Foster, actuarial services - **$18,193.00**
9. American Core Realty Fund - quarterly fee, 1st quarter, 2015 -**$2,907.71**

DEPOSITS

1. Litigation settlement - **$1,388.74** (C.S. McKee)

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 - none

ADJOURNMENT - There was no further business; the Chairman adjourned the meeting at 6:00 p.m.

Respectfully Submitted:

Sheila Hutcheson, Plan Administrator

Approved:

Richard Sherlone, Chairman