CITY OF PORT ORANGE GENERAL EMPLOYEES RETIREMENT PLAN
QUARTERLY MEETING MINUTES
March 28, 2016

ROLLCALL:
The quarterly meeting of the City of Port Orange General Employees Retirement Plan was called to order by Chairperson Donahue at 2:00 p.m. on March 28, 2016 in 2nd Floor Training Room, City Hall 1000 City Center Circle, Port Orange, FL.

TRUSTEES PRESENT:
Chairperson Kent Donahue, Vice Chairperson Sonya Laney, Council Member Scott Stiltner, Peter Ferreira, Tracey S. Riehm, and Linda Johnson

ABSENT AND EXCUSED:
Donnie Franklin

OTHERS PRESENT:
Pete Prior of Benefits USA, Inc., Dave Leonard, Actuary, Grant McMurray of Highland Capital, Jeff Swanson of Southeastern Advisors, and Retiree John Shelley

PARTICIPANT/PUBLIC PARTICIPATION:
Mr. John A Shelley - Retired Past Chairperson of the General Employees Defined Benefit Plan (GEDBP) spoke about the proposed annual administration fee of 1% that will be charged the Retired or Resigned participants of the Voluntary Employee Contribution Fund. Mr. Shelley provided some history about this Fund saying that these retirement assets were on par with all other retirement assets as managed by this Committee. These funds were originally deposited by employees as a withholding from earned wages, with the intent of enhancing retirement years by saving more during employee careers with the City. There was never any indication to employees that these funds would be isolated differently or placed in second tier and/or treated differently in the future.

In summary, all fees and expenses of the Plan are offset by total investment earnings of the assets. Plan Assets include both Defined Benefit Plan and Voluntary Account Assets. These earnings, net of expenses are allocated to the respective Member Retirement Accounts as net investment earnings on an annual basis or more frequently, if the retiree is taking interim distributions. The new proposed fee would be an additional fee on the Voluntary Accounts that would reallocate investment income from them into the defined benefit component of the Plan. Looking at it another way, the Voluntary Accounts would pay for administrative fees initially through allocation of net investment earnings and pay once again through this proposed fee.

For example: one Retiree has a voluntary account of approximately $154,000 saved throughout his career, including net investment earnings. He would pay an annual administration fee of 1% or $1,540.00. As defined, this would pay for "Expense of calculating the balance of the account at year end and for the processing of requested distributions". Again these costs have already been paid by the allocation of net investment earnings but the new proposed 1% fee would be in excess of this amount. For example; someone's account balance is about $62,000 and this person would pay 1% or about $620. Why should they pay less than other retirees or maybe a better question is: Why should we pay twice?

Mr. Shelley agreed that if an expense caused by Voluntary Employee Retirement Assets is proportionately larger, the accounts should bear the cost, allocated equally to all of the same type accounts, but Mr. Shelley has yet to hear that this is the case.

Member Johnson reported that some active Members came to her complaining about the 1% fee and how it will apply to active Members. Member Laney noted that her comments were directed to the Members that left employment with a remaining balance in the Voluntary Account, Member Laney never pushed to apply the fee to Active employees. Member Riehm also commented that it was her belief that the fee was for retired or terminated members and not for currently employed Members. Chairperson Donahue asked how many members are still in Voluntary Account. Mr. Leonard answered that there are about 30-35 Members in the Voluntary Account; around 25 active employees. Mr. Leonard noted the balances are net of fees with an estimated cost of $2,000 for administrative fees. Chairperson Donahue directed moving this item for next agenda for more discussion.

APPROVAL OF MINUTES

February 22, 2016 – **Regular Meeting**

Chairperson Donahue asked the Members if they have any issues with the minutes, corrections, additions, or deletions. Member Laney moved to approve the minutes of February 22, 2016 Regular Meeting with the corrections as indicated and presented by the Chair. Member Stiltner seconded the motion and the motion passed.

UNFINISHED BUSINESS

October 1, 2015 Final Valuation Report – Dave Leonard

Mr. Leonard addressed the Board regarding the Final Valuation noting the changes were made as of last month which did not change the outcome of the valuation. Mr. Leonard provided the Chairman a hard copy of the valuation. The final report and disclosures varies only a little from the draft reports/disclosures. The main differences are: Recognition of the decision to base the recommended contribution on the prior year's valuation, as is common practice; addition of graphs in the form of the presentation from the City Council meeting, as an additional appendix; enhanced tracking of participant movements, as suggested by the independent actuarial review. Mr. Leonard noted that the contributions from employees have continued to decline due to fewer employees. Employee's currently contribute 7.5% of their salary.

The performance of the Fund shows the valuation of the Fund is smooth, validating the reason why the Board decided to establish a smoothing technique for the Fund. Mr. Leonard noted that his presentation to the City Council was favorably received versus the other employee Plans. Mr. Leonard reported that the rate of return for the Plan is 7.5%. The 2014-15 trust asset return was just 2.2%, the valuation yield for the year was about 6.5%. Salaries did increase slightly more than our 4% assumption, and there were some high profile early retirees at subsidized rates. As of December 31, 2015, the Plan's Assets was $27,330,202, Plan's liabilities were $33, 383, 933, the Plan's Funding Ratio was 81.9% vs. 2014 Fiscal year 86.6%.

Mr. Leonard gave a brief description of the Florida Retirement System reporting that FRS earned 7.56% for the last 3 years; 2015 Fiscal year ending June 30 earned 5.63%, 17.5% for the past 15 years. The Trustees asked Mr. Leonard's opinion of possibly transferring the plan to the Florida Retirement System (FRS). Mr. Leonard stated that he did not know if that was even an option, but if it were there could be some significant obstacles to its completion. His primary concerns would be: (1) the level of underfunding that FRS would calculate, not knowing what discount rate would be applied to the plan's liabilities. At a 6.5% discount rate, the unfunded liability was $10,756,263 for GASB, as of October 1, 2015. Current settlement (annuity) rates range from 2% to 3%, so the actual unfunded (if those rates applied) could be more than $20,000,000. FRS would probably allow for an amortization of this amount (in addition to a regular annual payment for continuing accrued benefits). The amortization would most likely be calculated using the valuation rate of interest - currently 7.65%. (2) That the benefit formula for most of the current Port Orange General Employees Retirement Plan participants is better than the FRS plan. Since it is unlikely that FRS would allow the current formula to continue, there could be a reduction in benefits that the City does not intend to impose on long term employees

Member Laney requested that the discussion about FRS should be recorded in today's meeting minutes.

Mr. Leonard reviewed the cost of reducing the rate down from 7.5%. Mr. Leonard distributed the handout to all Members. If the Interest Rate went down to 7.35% the City's Contribution will increase to 17.4%, decrease the Interest Rate to 7.25%, the City's Contribution will increase to 18.3% and finally decreasing the Interest Rate to 7.0%, the City's Contribution will increase to 20.7%. The Plan's Funding Ratio also will go down from the current 81.9% to 77.7%.

After the review from Mr. Leonard, Member Laney noted that she thinks the rate should go down somewhat to a conservative amount. Member Riehm agreed with that comment as well. Mr. Leonard noted that the Board moved from 8% to 7.5% in 2010, while reducing salary increases to 4% which helped reduce the cost. Member Ferreira questioned that he understood the Interest Rate going down will raise the City's Contribution Rate, but at the same time, also raise the Plan's liabilities, why would the Board want to do that. Investment Advisor Jeff Swanson commented that this Plan is different because since we have fewer employees entering the Plan and there is more money leaving the Plan then entering the Plan, over time, the Plan will be short of cash, which will reduce Plan's investment performance. So, lowering the interest rate can help the plan's cash flow. Member Laney asked Council Member Scott Stiltner to bring this issue to next City's Council Meeting. Council Member Scott Stiltner said that he will do so; he already mentioned this issue at the past Council Meeting. Member Stiltner said that being a City Council Member, he has concerns about City's budget, but he believes that paying more money now is much better than paying later. Member Stiltner said his goal is to reduce the interest rate to 7.35% next year and four years reach 7.00%. Member Johnson and Member Laney agreed with Member Stiltner. Member Riehm said that she also fine with Member Stiltner's suggestion, and if the Pension Board approves to lower the interest rate to 7.35% for next year, she will include it in the City's next Fiscal Year Budget which will happen in October this year. Mr. Leonard asked if the Plan was to lower the rate to 7.35% would that be for FY 2017-18. Member Riehm said that she thought it would be for the FY 2017-18. Chairperson Donahue said he would like to see this item listed on the next agenda for discussion and vote.

Member Laney moved to approve the report as presented. Member Riehm seconded the motion and the motion passed.

2015 Final Audit Report- James Moore
After reviewing the Final Audit Report Member Laney moved to approve the audit. Member Ferreira seconded the motion and the motion passed.

FINANCIALS:
February 2016 – Dave Leonard
Mr. Leonard reviewed the financials with the Board. Mr. Leonard noted the market value of the Fund is $28,628,572.95, a decrease of $127,221.38. Receipts for the month totaled $922,386.83 versus total disbursements of $914,127.05. Payments to retirees and other participants totaled $154,633.19. The balance as of February 29, 2016 was $1,133,502.66 in the Cash account. Mr. Leonard reported that the yield for the month is -0.20%.

Member Laney moved to accept the February reports as provided. Member Johnson seconded the motion and the motion passed.

Highland Capital- Grant McMurray
Mr. Grant McMurray distributed an additional handout about the performance of the Fund. As of December 31, 2015, the City of Port Orange General Employees Retirement Pension Fund's Highland Capital Management balanced account was valued at $7,132,114.00. For the fourth quarter, the Highland Capital Management balanced portfolio returned 5.90% which was 1.1% lower than the Index of 7.0%; -0.5% for one year, and10.7% for the past five years on an annualized basis. It was noted that the asset allocation is as follows: 93.9% in Value and 6.1% in Cash/Cash Equivalents. The top three holdings by sector are as follows: Financials, 26.0% of the portfolio returned 5.1%; Industrials, 12.5% of the portfolio returned 8.7%; and Health Care, 11.3% of the portfolio returned 5.3%.

Mr. McMurray reported on the historical overview of the S&P 500 Index and the impact it has on the market. Mr. McMurray noted that the U.S. stock market, represented by the S&P 500 Index, was up for the fourth quarter of 2015 by 7.0%. the market rebounded during the last quarter of the year as leading economic indicators in the U.S. rose in October and November, suggesting continued economic growth.

Southeastern Advisory- Jeff Swanson

Mr. Swanson reviewed the investment performance report for the period ending December 31, 2015. The fourth quarter of 2015 brought an end to a year in which capital markets were dominated by the board macroeconomic themes of "U.S. interest rates" and "economic slowdown in China". After years of uncertainty, the U.S. Federal Reserve finally took action on interest rates; on December 16, the Fed decided to raise the target range of the Fed Funds rate to 0.25-0.50%, from the 0.00-0.25% range it had maintained since 2007. Growth in consumer prices remained weak in the U.S., primarily due to the stunning collapse in oil prices and the resultant slide in gasoline prices. The Consumer Price Index, All Urban Consumer (CPI-U) fell -0.6% in the fourth quarter of 2015 and for the year posted a remarkably low 0.7% increase. This marks four years of consumer inflation remaining below 2.0% per year. U.S. real GDP growth slowed but was sound during the third quarter of 2015, expanding 2.0% annualized. China's economic slowdown has had major effects on the global economy, as lesser demand for industrial raw materials has sent commodities prices sharply lower. Gold, despite a fairly tumultuous year in geopolitical events, slid 12% over 2015 as well.

Mr. Swanson reported that the Fund portfolio value as of December 31, 2015 was $29,738,032. The Total Fund returned 4.4% for the fourth quarter which was 0.7% higher than the target Index of 3.7% and ranked 2% of Total Public Fund Sponsors, 3.4% for one year, and 10.4% for the past three years on an annualized basis. The asset allocation is 56.8% Domestic Equity, 19.1% Fixed Income, 9.1% International Equity, 12.8% Real Estate and 2.2% Cash. Total Domestic Equities' return was 7.0% which was equal to the S&P 500 Index of 7.0%. Total Fixed Income returned -0.5% which was 0.1% lower than the Barclays Aggregate Index of -0.6%. Total International Equities' return was 4.2% which was 0.5% lower than the MSCI EAFE Index of 4.7%. Total Real Estate's return was 2.8% which was 0.1% lower than the NCREIF Property Index of 2.9%.

Mr. Swanson reported that the Manager Allocation is 24.0% managed by Highland Capital, 8.2% managed by Atlanta Cap, 4.3% managed by EuroPacific Growth, 4.8% managed by Vanguard Global, 12.8% managed by Principal Real Estate, 26.6% managed by Boston Company and 19.2% managed by Integrity.

The compliance checklist is positive and Investment Advisor Mr. Swanson said he is not making any suggestions for change at this time.

NEW BUSINESS:

Agreement letter for Fund Attorney James Loper

Mr. Prior contacted Attorney James Loper regarding his letter of agreement. Mr. James Loper introduced his firm and his services. He indicated that his fee is $250 per hour and is agreeable to a three year agreement if the Board so desires. Attorney James Loper noted that he is planning to retire in 2018 when he turns age 70. Member Riehm moved to approve with 90 days and 3 year term. Member Ferreira seconded the motion and the motion passed.

2015 GASB 67

Mr. Leonard provided a brief report on GASB 67 which is of no impact to the Plan. As of September 30, 2015: Total Pension Liability $33,383,933; Plan Fiduciary Net Position $27,330,202; Net Pension Liability $6,053,731; Plan Fiduciary Net Position as percentage of the Total Pension Liability 81.87%.

2015 GASB 68

This reflects the impact on the City. As of September 30, 2015, Pension Plan membership consisted of the following: 77 Inactive Members or Beneficiaries currently receiving benefits, 24 Inactive Members entitled to but not yet receiving benefits; 132 Active Plan Members. FS 2015 Actuarial Assumptions applied to all periods in the measurement: Inflation rate is 3%, Salary Increase 4.0% and Investment Rate of Return is 7.5%. Member Riehm noted that Mr.Leonard did not charge the Plan any additional fees for preparing the 2015 GASB 68.

Member Stiltner moved to approve both GASB 67&68 Reports. Member Johnson seconded the motion and the motion passed.

Brent Cover – Beneficiary of Deceased Retiree Brian Cover Payment for Approval

Chairperson Donahue reviewed the documents reflecting the Death Benefits payment for Mr. Brent Cover. Member Riehm moved to approve the Beneficiary Brent Cover's payment. Member Ferreira seconded the motion and the motion passed.

James Whitmarsh – Beneficiary of Deceased Retiree Dorothy Whitmarsh Payment for Approval

Chairperson Donahue reviewed the documents reflecting the Death Benefits payment for Mr. James Whitmarsh. Member Stiltner moved to approve the Beneficiary James Whitmarsh payment. Member Johnson seconded the motion and the motion passed.

DROP Application for Richard Towey

Chairperson Donahue reviewed the documents reflecting the DROP application for Richard Towey. Member Ferreira moved to approve the DROP application for Richard Towey. Member Johnson seconded the motion and the motion passed.

CONSENT AGENDA:

For Approval:

Warrant#111

Benefits USA, Inc. (Admin Fees 03/2016; INV #POG084)	$ 2,500.00
David G. Leonard, ASA (Actuarial Services: INV #16-007)	$ 11,875.00
David G. Leonard, ASA (Actuarial Services: INV #16-008)	$ 1,000.00
James Moore (2015 Audit INV #542796)	$ 7,000.00

Member Ferreira moved to approve Warrant #111. Member Johnson seconded the motion and the motion passed.

DISTRIBUTIONS:

Voluntary Plan

Betty Ceribelli	Total Withdrawal	$ 60,473.92
Donna Steinebach	Total Withdrawal	$ 160,117.62

Mandatory Plan

William LeMay	Total Withdrawal	$ 3,458.96

Member Riehm moved to approve the distribution for the above. Member Ferreira seconded the motion and the motion passed.

REPORTS:

Members

Member Riehm asked what the payment status is for deceased Retiree Recardo Wilker. Mr. Prior reported there is no Beneficiary for Mr. Wilker. Mr. Wilker indicated that he didn't have a Beneficiary when he was processing his retirement. Benefits USA did work with HR and followed up with his co-workers, only finding his step-brother. His step brother advised that he could not do anything to set up a Trust Fund for Recardo Wilker. Member Johnson said maybe she can find some contact information for Mr. Wilker. Member Riehm said that she knew City Employee Tracy London did work with Mr. Wilker's sister when he passed away. Member Riehm will contact Ms. London to give the contact information to Benefits USA. Member Riehm would like to get some expert's suggestion how to deal with this kind of situation.

Administrator

Mr. Prior reported that FPPTA Trustee School is scheduled for June 26 – 29, 2016 at the Hyatt Regency in Orlando, Florida. Members that wish to attend please contact Benefits USA as soon as possible to register with the FPPTA.

NEXT MEETING DATE:

April 25, 2016 at 2:00 p.m.

ADJOURNMENT:

The meeting adjourned at 4:17 p.m.

Kent Donahue — July 25, 2016

Chairperson — Date