CORAL GABLES RETIREMENT SYSTEM
Minutes of February 10, 2011
Police Community Meeting Room
2801 Salzedo Street – Police Station Basement
8:00 a.m.

MEMBERS:	F M A M J A S O N J F	APPOINTED BY:
Steven Naclerio	P P P P P P P P P P P	Mayor Donald D. Slesnick, II
Manuel A. Garcia-Linares	P P E P E E P P P P P	Vice Mayor William H. Kerdyk, Jr.
Tom Huston, Jr.	P P P P P P P P P P P	Commissioner Maria Anderson
Sal Geraci	E P P P P P P E P P P	Commissioner Rafael "Ralph" Cabrera
Leslie Space	P P P P P P P P P P P	Commissioner Wayne "Chip" Withers
Daniel DiGiacomo	- - - - P P P P P P E E	Police Representative
Randy Hoff	P P P P P P P P P P E E	Member at Large
Donald R. Hill	--------------------------P P	General Employees
Troy Easley	-------- P P P P P P P P	Fire Representative

STAFF:
Kimberly Groome, Administrative Manager
Donald G. Nelson, Finance Director
Alan E. Greenfield, Board Attorney
Troy Brown, The Bogdahn Group
Dave West, The Bogdahn Group

A = Absent
E = Excused Absent
P = Present

GUESTS:
Patrick Salerno, City Manager
Vince Carrodeguas, Goldstein Schechter & Koch
Elisabeth Capota, Goldstein Schechter & Koch
Frank Quesada, Candidate for Commissioner

Chairperson Tom Huston calls the meeting to order at 8:10 a.m. There was a quorum present. Mr. Hoff and Mr. DiGiacomo were excused.

1. Roll call.

Chairperson Huston presents Victor Goizueta who is a past Board member and has retired from the City with a Certificate of Appreciation. Mr. Goizueta thanks the Board members. He comments that it has been an honor working with the Board and they do a fantastic job with the pension plan.

Chairperson Huston recognizes Patrick Salerno the City Manager. Mr. Salerno informs that he is at the meeting in response of an invitation he received from the Administrative Manager that the Board wanted to talk to him about the process of the recruitment of the Finance Director when Mr. Nelson retires. The process has started but that doesn't mean the advertisements are out or that a search has begun. They are preparing the advertisements and updating the job description. The process started within the last ten days. They are going to look for the best person possible. It will be a national search. He read the minutes from the last meeting where there were comments from the Board about what they were looking for. Obviously experience with pension systems will be a key factor in his decision making process for the new director. He spends a lot of time evaluating and doing his homework on candidates whether it is for a Finance Director or anyone else they bring into the organization. He thinks that is one of the important things a manager does. It is a key decision and the process has begun. He can't respond as to when the process will be concluded but it will be the moment they identify someone he believes can meet all the needs that they have for that position. Mr. Geraci asks if they are using a national search firm or if they are doing it all in-house. Mr. Salerno responds that he would like to use a national search firm but a national search firm is going to charge $25,000. They have hired five department directors since he began with the City and none of those hires were using a search firm. It takes more time for him but he doesn't think they are in the situation where they can afford to have the luxury of spending $25,000 or more right now. He thinks the five department directors they have brought into the City so far are tops in their professions, well qualified, dedicated, hard working and nice people. Those are the things he looks for in an employee.

Mr. Naclerio states that the ordinance has the dual function of the Trustee and the Finance Director being the same person. The Board was wondering of the Manager's thoughts on that and maybe splitting it apart or keeping it the same. Does he have any preliminary thoughts on that? Mr. Salerno thinks the system works best when there is a sharing of knowledge and information. They are all working toward the same goal. He would be supportive in continuing the arrangement they have currently. He thinks that works best and would want to see that continued. It is not the structure that is important but the individual. From what he understands the Board has felt in the past that the working relationship between Mr. Nelson and the Board has been a positive and constructive one. It is his goal to find someone with the technical skills, the interpersonal skills and the judgments that would continue that relationship.

Mr. Garcia-Linares comments that there have been situations where the Board has felt that Mr. Nelson has been placed in a position where there is a potential conflict between his duties as Finance Director versus his duties as Trustee. He strongly suggests that the City consider splitting the position in two so they have a Trustee for this plan who is looking out for the best interest to the plan and a separate person of a Finance Director looking out for what is best for the City. He has been on this Board for nine years and they have had times where there have been potential conflicts. He thinks that Mr. Nelson has done a great job and has been put in a very difficult position because he has been torn in two separate ways. Mr. Salerno believes they all have been in situations in positions. As City Manager he gets torn all the time. He wants to keep the workforce motivated and happy and at the same time he has to deal with the realities of a new economy. Those are the facts of life you have to deal with. He understands that at times there will be tough decisions to be made. He is not aware of what those issues were regarding the conflicts but he will go back and look at those kinds of situations and make sure that he is abreast of what happened in the past. In general there will always be situations and they are all working for the benefit of tax payers of the City. That is the bottom line.

Mr. Space points out that being on the Board they have a fiduciary responsibility and are held accountable to the plan. They have to take into consideration what the City can do. As an example on a fiduciary responsibility, the Board felt it best to reduce the assumption rate from 9% to 7.75% and now wishes they can go to 6%. They understand that the City can't afford to go to 6% at this point but the responsible thing to do is to go to 6% if they could. They and the Trustee have the fiduciary responsibility and can get hung out for doing something wrong to the plan. Mr. Salerno understands but he also thinks the Board has to keep in mind something that costs millions of dollars means hundreds of jobs that will be lost and the impact that transcends. The Board has a difficult job and is balancing decisions all the time. In these economic times their job is ten-times tougher than in normal times. He does understand the fiduciary responsibility of the Board. He was glad to be invited to talk to the Board this morning. He thinks they are one of the most dedicated Boards they have in the City and take their job seriously. It is always a pleasure when he gets an invitation and would not hesitate a moment to come before the Board and talk about anything they like. The Finance Director is key in the organization in helping get the organization in a financially sound environment. That is why they started the process of finding a new Finance Director.

Chairperson Huston comments that there was a change in the pension plan that they were briefed on at the last meeting and the changes dropped the funding by about $3 million. He guesses that the City based the decision that the $3 million could have been paid into the plan and strengthened the plan or the City could have taken it and reduced the funding to the plan from $24 million to $21 million. The decision was made to put that $3 million back into the City rather than the plan. Mr. Salerno clarifies that $2.5 million of the $3 million has been set aside and a reserve has been established for the pension system. It was their judgment because their goal is to look at the long term like the Board does when they make decisions. The $2.5 million of $3 million that was set aside and is in a separate reserve fund for pension purposes. They didn't put it into the General Fund to help pay for street repairs or salaries or anything else. They know they aren't through the woods yet. Hopefully as they go forward they can start bringing down the unfunded liability. Those dollars did not go into the General Fund. They have been set aside for pension purposes to help the City meet its obligation in the future.

Chairperson Huston asks how the reserve will switch to the plan. Mr. Salerno responds that the City will make those decisions. Mr. Space asks if the reserve is making 7.75% per year. Mr. Salerno responds negatively. Chairperson Huston believes that if that money was in the plan the Board would be talking to their consultants about how to invest it and try to magnify the sum. Mr. Salerno explains that the City is still not out of the woods yet. There are a lot of the things that affect the City financially and they are not in the position yet to be able to say that the future is going to get better. They have to have some cushions. They have cut 100 jobs in the City over the last two years. There is no more cushion. If they get another downturn and their revenues are not realized they are going to get into the meat and potatoes of this organization. That means public safety because there will be no way to avoid it. Public safety is 60% of the budget. He cannot just focus and make sure that the pension plan is fine without keeping in mind that there are life safety issues he has to be cognizant of. He takes the Board's comments in earnest and he will ask Mr. Nelson to do a further review on that. The State of Florida establishes a reserve but he doesn't know of any other City that has done the same. He is holding police officer and firefighter vacancies right now. That is not something he wants to do but something he has to do.

Mr. Space informs that from 2008 to 2009 they increased their retirees by 40 and decreased their employees by 26. They are about 60% funded. To him the amount funded is only important in how much the City has to contribute each year. Have they forecasted for a lot more retirees coming out and a lot less employees being reduced. Mr. Salerno explains that they cut 100 jobs and many of those employees retired. Mr. Space understands. He doesn't know the cash flow on it. When you have an uptake of 40 on the retirees then that is a cost coming from the retirement fund itself. When the down take is 26 employees you reduce salaries and retirement income. He thinks it will be a wash. He was wondering on the long term if they are going with a situation that will cost more to the plan in the future. Mr. Salerno responds that they don't know that yet. He meets once a month with the employees for lunch and consistently the one question he gets asked is if there are going to be more layoffs. They care and they are making their planning decisions too. They are uneasy with what he is able to say. A lot of what they have to do is going to be a result of how successful the City is in collective bargaining. Wages and compensation make over 70% of the budget and revenues are not going up. They don't expect property taxes to go up. That is why they are holding vacancies right now and that is why they took the position to give the City some type of flexibility. That is why they are not putting the extra money into the pension fund because once it goes in there it isn't coming out.

Mr. Naclerio mentions that he was speaking with the consultants before the meeting and at this point they believe that the pension assets are at the high watermark and that the money that is in the pension has recovered from the financial downturn. They are at their highest mark they have ever been in terms of their assets under management. Mr. Salerno thinks that is great. At this moment he feels better but he also knows that what they measure is September 30th so they will see where they are then. Mr. Naclerio states that the fact is the assets under management now are greater than they have ever been. That is true. Mr. Space comments that they would love to see the fund 80% funded because the more funded the plan is the less the City has to pay out during the year. At the same time if 50% funded or 40% funded it is a function each year of how much the City has to contribute to make the actuarial numbers work out. He thinks that based on where they are strictly on how much they are funded is not necessarily a great target.

Mr. Salerno thanks the Board for the invitation. He came to the meeting to address the Board's concerns regarding the Finance Director and he was glad to respond to the Board's other thoughts. Mr. Garcia-Linares believes that it has been helpful having the City Manager at the meeting and that he clarified some things that the Board did not understand. He asks that if something in the future affects the pension plan that the

Manager or someone from his office could come and spend about 20 minutes with the Board to explain what is going on. That would be very helpful to the Board. Mr. Naclerio adds that when the City and the Commission were making changes to the retirement ordinance the Board had a very difficult time getting information as to what the changes were. He believes that was due to the advice of the attorneys handling the changes. The Board was put in a very difficult position when the City makes changes that everyone is talking about because the public was asking the Board members about the changes and the members did not know what the changes were. At the last meeting they were finally able to get an explanation of what the changes were. In the future they would like to be considered to receive the information a little more timely. Mr. Salerno informs that the documents are public record and since September the changes have been codified in MuniCode. Any time since October any one could have looked at the changes that were made. They will try and do a better job keeping the Board posted on the collective bargaining.

Chairperson Huston recognizes Frank Quesada who is a candidate for City Commissioner. He asks if Mr. Quesada has anything he would like to address to the Board. Mr. Quesada informs that for him he is doing some fact finding and some research. Mr. Garcia-Linares told him that there was a meeting today and he wanted to be as informed as possible regarding the City's pension plan.

Chairperson Huston informs that the plan's auditors are at the meeting. Vincent Carrodeguas and Elisabeth Capota of Goldstein Schechter & Koch present a few highlights on the financial statements as of 9/30/2010. Mr. Carrodeguas points out that the Unqualified Opinion in the document basically states that the numbers and the information in the financial statements are considered materially accurate. There are many drivers that got them there but overall total net assets were up about $18 million. That is primarily driven by the net appreciation number. Pension benefits paid is up a little bit at about $4 million. That the plan is funded at 57% and they audit 30 to 35 public pension plans. Even the strongest plans today are funded in the low 70 percentile. They had one plan that was funded at 91% and is now funded in mid to low 70%.

Mr. Naclerio wonders if there is any accounting treatment the plan can get for the reserve the City Manager just talked about. Should it be documented that they have this reserve or is it just a bookkeeping entry? Mr. Carrodeguas responds that he was thinking about that as the Manager made that comment. There is an audit standard that is called GASB #5 which is accounting for commitments and contingencies. When you have a commitment or you have a potential contingency depending on what type it is you either disclose it or do an accounting entry for it. In this case it is called a contingent receivable and by its definition contingent receivables are not accounted for. If it is not in their control then typically you don't disclose it although if that is a disclosure that is important to the Board then he would have no issue in putting it in the financial statements. Mr. Garcia-Linares informs that the way he understood it is the City has put aside $2.5 million if they need to use it for the pension but if they have to use it for police and fire or hire other employees it is beyond contingent in terms of whether or not the fund would ever come into this money. Mr. Naclerio was trying to see if there was a way they could leverage that up a little bit but if there is no way then there is no way. At this moment they can't put a footnote in the financial statements about it. Mr. Garcia-Linares states that they do have the minutes of this meeting where it has been said that the City set aside this money and hopefully it would come into this plan. He wants to point out that in 2005 they were 57% funded and now they are back to 57% funded. In 2005 they only contributed $16.9 million. The City could have contributed more money in better years at a higher funding rate but the City didn't take advantage where they had good gains and therefore did not fund the plan. His concern is now they have larger gains and he is not sure the City will or will not continue to fund at the same level. He thinks if they don't continue to fund at the same levels the Board should question that and continue to discuss with their actuary and their investment advisors whether or not they should lower the 7.75% prior to the actuary coming forward. Mr. Space agrees. If you take this back to 1962 the lack of funding in good times didn't happen. There are a lot of things that created the problem that they got into and what Mr. Garcia-Linares has brought up is true.

Chairperson Huston comments that he has felt for a long time that their assumption rate was high. The City has not chosen to do anything about it but if you recall at one time when they were at 9% the actuary said it was too high and they lowered it to 7.75%. Their consultants have told them throughout the State of Florida that is kind of okay but certainly not conservative. If you read the Wall Street Journal California is thinking of going to 6% and other plans are thinking of lowering their assumption rate but not immediately. The City is probably chosen a mid-point of not putting $2.5 million in the plan and keeping it in a reserve. He doesn't know exactly what that means. Mr. Garcia-Linares thinks they should lower the assumption rate to at least 7% and then what you will see is the conflict he has mentioned regarding the dual function of the Finance Director/Trustee who may appeal the Board's decision to lower the assumption rate. It is his opinion that they should lower the assumption rate this year to 7%. Mr. Geraci understands what Mr. Garcia-Linares is saying. Because the City has this reserve, now would be the time for the Board to lower the assumption rate and take the money from the reserve to pay the difference. Mr. Garcia-Linares verifies that is exactly what he is saying.

Mr. Goizueta comments that the City Manager said the reserve was $2.5 million possibly to but used toward the pension plan. He didn't say solely to be used for the pension plan. If the Manager could use the word "solely" he wonders if the auditor could use that as a credit for the account. Mr. Carrodeguas would have to see the document and the document would have to show him clearly that there is a commitment. If the commitment happens now or three years from now there has to be a firm and clear commitment that the $2.5 million is coming into the plan. Mr. Space states that the problem is it is not making 7.75%. Mr. Goizueta agrees. A few meetings back Mr. Nelson informed that he would like to set a stable amount for the pension plan so the City does not have the contribution fluctuation they have every year. If they could get a sole commitment of $21 million every year and even if the funding is $19 million then the plan could still get the $21 million.

Mr. Easley states that Mr. Carrodeguas said that they service one plan that fell from 91% to 70% and that is quite a fluctuation. With their plan he sees that in good times and bad times they still maintained close to 60% funding and did not drop so much in their funding. He thinks that their change in policy of investing has somewhat shielded the fund from the downturn of the market. He thinks they have started much better these days than they had previously.

Mr. Space thinks that they need to ask the actuary to give them an estimate of how much it will cost the City to drop each quarter of a percent in their assumption rate, for example from 7.75% to 7.5% to 7.25% to 7%. How much would it cost for each step. Mr. Garcia-Linares would like to know how much it would be to go to 7% and then to 6.75%. Mr. Space would like to have some type of a gage of what they are doing. Mr. Nelson informs that they had done a study in the past where every one-quarter percent cost $500,000 more in annual funding. That was a number of years back. To have it accurate the actuary would have to recalculate to determine what each quarter drop in the assumption rate would represent. Mr. Garcia-Linares would like to find out how much it would cost to go to 7% and 6.75% and let the actuary present it to the Board at the next meeting and let the Board vote on it.

Mr. Carrodeguas continues. They are in the process of crafting what they call a subsequent event footnote and that is an event that has happened subsequent to the balance sheet date of the plan which is basically 9/30 and so as of 10/1 there were significant changes to the retirement plan for the general employees. They will take it from the actuary report and craft just a very basic disclosure it is significance. That is one of the things they are going to add to the report.

Ms. Capota informs that they have added a new schedule to the financial statements which is a supplementary schedule of investment expenses and administrative expenses. It is not an accounting requirement but they have taken it on as a firm policy to add it into the financial statements. It has added value to the report and the boards in general have liked them. It is a detail of the expenses. The total investment expenses are $1,462,000 and that is broken down by the investment manager, the performance monitor and the custodial fee. It compares this year with last year. The total administrative expenses are $267,009 and that is broken down by each expense.

Ms. Capota continues. They are happy to be in front of the Board earlier this year than last year. They have prepared the State Annual Report and there are a couple of schedules outstanding. The financial aspects are complete. The backup needs to be completed. That way between today and next month's meeting Ms. Groome can present the completed Annual Report to the Board and confirm that it has been mailed to the State. They appreciate Ms. Groome and her help and Mr. Nelson and his staff's help. They both have assisted and cooperated with them and that has allowed GSK to come in front of the Board at this time. Chairperson Huston asks if they have any issues they should address. Ms. Capota answers as far as management issues they have not come across anything. They do look at document controls and procedures and they haven't seen anything significant to bring to the Board. That is a requirement of audit firms that if something does come to their attention they will bring that to the Board.

Mr. Garcia-Linares asks if the other plans they audit have their Finance Director as the Trustee to the pension plan. Mr. Carrodeguas replies that each plan is different. If he would have to take a guess they do have plans that have dual roles more than the Board would think. If that is a statistic that would interest the Board he will get that information. Mr. Garcia-Linares informs that it is an interest.

Chairperson Huston asks if the auditors want the Board to approve the document today or is it for informational purposes. Mr. Carrodeguas responds that typically they do the presentation in draft form which gives the boards an opportunity to look at the document. If there are changes to the document the Board keeps the document to look at and approves it at another meeting or they can approve it now subject to those changes. Typically when there are changes they talk about it now and the Board usually approves it subject to those changes. It is up to the Board.

A motion was made by Mr. Garcia-Linares and seconded by Mr. Easley to approve the Financial Statements subject to adding the subsequent event footnote to the Financial Statements and any questions and comments the Board or staff makes to GSK before the statements are finalized between now and the next meeting. Motion unanimously approved (7-0).

Chairperson Huston asks if they present a management letter. Mr. Carrodeguas replies that from time to time they do present a management letter but in this case there are no significant issues and they have not issued the SAS 115 letter. Ms. Capota informs that they do have the management representation letter and that is a letter that needs to be signed by the Administrator and the Chairperson. That letter states that they have not withheld anything from GSK and have provided everything they needed to complete the report.

The Board thanks Mr. Carrodeguas and Ms. Capota for the presentation and their service.

2. Approval of the Retirement Board meeting minutes for January 13, 2011. *(Agenda Item 5).*

   A motion was made by Mr. Easley and seconded by Mr. Geraci to approve the meeting minutes of January 13, 2011. Motion unanimously approved (7-0).

3. Approval of the Retirement Board Executive Summary minutes for January 13, 2011. *(Agenda Item 6).*

   A motion was made by Mr. Easley and seconded by Mr. Space to approve the Executive Summary minutes of January 13, 2011. Motion unanimously approved (7-0).

4. Items from the Board attorney. *(Agenda Item 7).*

Mr. Greenfield states that it was a pleasure to listen to the dialogue between the Board and the City Manager. He thinks it is probably something they should do more often.

Mr. Greenfield reports that at the last meeting he informed that things were relatively quiet. He probably shouldn't have said that because since then he and Ms. Groome have been busy on a number of items. The good part is all the subscription documents for the managed futures were submitted timely and the money was funded. Based on what the Board had requested he prepared a draft of an ordinance which he did not circulate but he did send a copy to the Acting City Attorney to get input from her. He has not been able to receive any response to the draft ordinance that he prepared. The draft ordinance was basically one that separated the function of Trustee from that of the Finance Director and it gave the Board the latitude of choosing a Trustee. After listening to the City Manager today he doubts that the idea will go very far. He needs direction from the Board as to whether or not the Board wants to consider pursuing the matter with the City Attorney and doing anything further on it.

Mr. Garcia-Linares would like for Mr. Greenfield to complete the process even if the Board gets overruled. He would like to complete the process and complete the draft of the ordinance and get that over to the Mayor and the Commissioners. Chairperson Huston thinks the consensus of the Board is that they would like to see a separation of these two offices and definitely pursue it. Mr. Geraci asks who would become the Trustee. Mr. Garcia-Linares responds that the Board would hire a Trustee. Mr. Geraci wonders what type of professional would be a Trustee. Is it an attorney or an accountant? Chairperson Huston understands that they would look for someone with accounting skills, investment knowledge and with some ability to represent the Board in dealings with the City. Right now Mr. Nelson is put into a difficult spot by being the Trustee of the fund and the Finance Director to the City. Take the $2.5 million they are talking about. Where is it? What is it? What conditions are there on it? If he decided to reserve $10,000 for his vacation and one day he gets a big bill that needs to be paid, well there goes that $10,000. Mr. Geraci asks if it would be the recommendation to hire someone like Mr. Nelson after he retires from the City and becomes an independent consultant. That is the type of person they are looking for. Chairperson Huston explains that they would hire someone who only deals with the pension system and would not have the dual responsibility with the City. Mr. Greenfield informs that he will continue with the process.

Mr. Greenfield continues with his report. They have had a number of QDROs come through. A QDRO is a Qualified Domestic Relations Order which is an order of the court in a dissolution case where there is a retirement benefit and the parties decide between themselves as to how the retirement is going to be split between the husband and the wife. In one of those QDROs they have gotten involved with. On Valentine's Day Ms. Groome will be deposed and on February 17th there is a hearing scheduled before a Circuit Judge in Palm Beach County in regards to the fact that the former wife alleges that Ms. Groome did not properly calculate the pension benefit that she was supposed to get which is absurd and completely wrong. Ms. Groome has informed him that between their discussions regarding this issue she has discuss the issue with the Acting City Attorney who agreed that Ms. Groome's method of making the payment was correct. They have had a lot of excitement with that matter and hopefully they will report favorably at the next meeting.

Mr. Greenfield states that based upon what the Board asked at the last meeting regarding class action attorneys, Ms. Groome obtained information from Northern Trust as to their protocol and what they are doing for the fund regarding class actions. In the meantime he has contact several of the class action attorneys who have indicated in the past the desire as act as their attorneys and that there would be no cost for monitoring the class actions. They confirmed that the Board did not have to be lead plaintiff and had the choice of hiring them or not. Their function is to monitor cases and they have a much broader database than Northern Trust. There is no cost for them to monitor and be a second eye for the plan. He asked what they gain out of this and they responded that a number of boards will hire them and this is their way of attempting to get business. They have indicated that if the Board wanted to hear from them they would be happy to come down and make a presentation.

Mr. Greenfield reports that he was also requested by the Board to find out about the lawsuit between the General Employees and the City. What he found out is there is no lawsuit. There is a proceeding that is pending before PERC which is an administrative proceeding. PERC is the Public Employee Relations Committee. It is a proceeding in PERC administratively and depending on what PERC says there will be a lawsuit that might follow from that. He attempted to speak to the City Attorney so that perhaps in a couple of words she could tell him something but she has been very tied up and very busy and has not been able to talk with him. Mr. Geraci thinks that is unacceptable for the Board's attorney not to be able to get a few minutes with the City's attorney. Mr. Greenfield doesn't know what is on her plate and she may be very busy. Mr. Easley asks how long Mr. Greenfield tried to reach the City Attorney. Mr. Greenfield responds that he sent her an email. She said they never got the email so he sent it again. He has tried to contact her over the past ten days, approximately. While he was visiting with one of the Board members and Ms. Groome he went up to the City Attorney's office to speak with her and her secretary said she was extremely busy and could not talk to him. If he has to work with the City Attorney he doesn't want to cause waves. She may have been very busy. Mr. Garcia-Linares believes that if Mr. Greenfield went to her office she could have spoken to him for two minutes and let him know when she would get back with him.

Mr. Greenfield continues. He attended the Investment Committee meeting that was just held and he attended in case there was anything regarding new manager contracts that he would have to be involved with. He thought it was an extremely good and informative meeting. He thinks that more Board members should attend these Committee meetings.

Mr. Naclerio asks for Mr. Greenfield to address the question of the fiduciary duties of the Board members and the relation to that duty and the hiring of experts like Bogdahn to look at managers and to what extent if any the hiring of a group like Bogdahn to look at different management firms extinguishes the duties of the Board members to act in the best interest of the plan and the retirees. Mr. Greenfield explains that is a very broad question. Mr. Naclerio explains that the reason he raised the question is that they have had issues with their investment advisors at least twice in the past. One went to litigation and one where they changed advisors. They have new Board members now that may not be aware of those things.

Mr. Greenfield thinks it would have been good for the two police Board members to have been at this meeting because they are new Board members. Basically they all know that they have a fiduciary responsibility to the plan, to the system and to the participants. He has his fiduciary responsibility to the Board. The Board has the fiduciary responsibility to the participants. Bogdahn is the fiduciary that has the responsibility to the Board and the participants. What is fiduciary responsibility duties mean? This is a public employee pension plan. They are not under ERISA which is the retirement plan for other than public employees. The Statute does take a portion of one of the provisions of ERISA and make it applicable to the municipal pension plans. That is the prudent man rule. The word fiduciary means that you have a duty and responsibility to someone else. That duty is to act prudently. To be a prudent man in whatever decisions you make. For example if he came to the Board and told them that they should file a lawsuit against every Commissioner and everyone else for the mere fact that he is their fiduciary and told them to file the lawsuit that does not mean that the Board has to follow his advice. Because acting as a fiduciary and being prudent the Board members might have a million questions to ask him and decide based upon his answers that they are or are not going to file a lawsuit against everyone. They have to use their own independent judgment and not take what the fiduciary says to the Board as being absolutely gospel. It makes it more difficult when the fiduciary is the auditor or the investment advisor because even though they are all intelligent human beings and more akin to what an attorney might tell them because they read the newspapers and know what is going on with life and have their own life experiences very few of them have experiences with auditors or investment advisors. Auditors and investment advisors seem to speak a language that is somewhat different than the language the Board members are generally accustomed to. That means the Board members have to ask more questions and try to understand what the auditor or investment advisors are saying. When the Board members have an understanding then they act prudently in making a decision. The mere fact if the consultants told the Board to invest into something that doesn't mean that they have to blindly follow that advice it if it is completely against everything they think is right.

At the Investment Committee meeting the consultants informed the committee that they recommended terminating one manager and hiring another one. The consultants gave their reasons why and the Committee made their recommendation to the Board as to what they should or shouldn't do. He would ask one of the consultants to go on the record and respond to whether or not they have a relationship with any of the money managers and if so what that relation is; if they are getting paid by the money managers; if they are getting indirect benefits for representing those managers; are they getting any benefit by recommending these particular managers, etc. That is important for the Board to know because in their fiduciary responsibility if an advisor tells them to use a manager and the advisor is getting something back for that then the Board needs to know that because it may or may not change their decision but at least it is a fact they need to know. What he is saying is that this Board has been an extremely independent and a great Board for the City and for the public because they have been inquisitive and have done a wonderful job. He thinks they will continue to do a wonderful job. From time to time he thinks it is important for him to explain to new members what their fiduciary relationship is and what their duties are. He thinks that Mr. Brown and Mr. West have done a wonderful job as the consultants.

5. Report of Administrative Manager. *(Agenda Item 8)*

A motion to accept the following items of the Administrative Manger's report without discussion was made by Mr. Garcia-Linares and seconded by Mr. Easley. Motion unanimously approved (7-0).

1. For the Board's information, there was a transfer in the amount of $2,500,000.00 from the Northern Trust Cash Account to the City of Coral Gables Retirement Fund for the payment of monthly annuities and expenses at the end of January 2011 for the February 2011 benefit payments.

2. For the Board's information:

   - Francisco Gaspa of the Automotive Department entered the DROP on February 1, 2003 and left the DROP on January 31, 2011. He received his first retirement benefit on February 1, 2011.
   - James Menden of the Police Department passed away on January 10, 2011. He retired on January 1, 1992 with Option 2B 66-2/3%. His beneficiary began receiving post-survivor benefits on February 1, 2011 and will receive those benefits for her lifetime.

- Paul Taylor of the Transportation Department passed away on January 11, 2011. He retired on May 1, 1987 with Option 2B 66-2/3%. His beneficiary began receiving post-survivor benefits on February 1, 2011 and will receive those benefits for her lifetime.
- Paul Gilson of the Public Service Department passed away on January 23, 2011. He retired on November 1, 2006 with Option 2B-50%. His beneficiary began receiving post-survivor benefits on February 1, 2011 and will receive those benefits for her lifetime.

3. For the Board's information, the following Employee Contribution check was deposited into the Retirement Fund's SunTrust Bank account:

    - Payroll ending date January 16, 2011 in the amount of $124,359.12 was submitted for deposit on February 1, 2011.
    - Payroll ending date January 30, 2011 in the amount of $125,926.86 was submitted for deposit on February 7, 2011.

4. A copy of the detailed expense spreadsheet for the month of January 2011 is attached for the Board's information.

5. Copies of the Summary Earnings Statement from the Northern Trust Securities Lending Division for billing period December 1, 2010 to December 31, 2010 is attached for the Board's information.

6. Attached for the Board's information are the Statements of Pending Transactions and Assets as of December 31, 2010 from JP Morgan.

7. Attached for the Board's information are the Statement of Settled Transactions from December 1, 2010 to December 31, 2010 from JP Morgan.

8. For the Board's information a copy of a check for the pro-rata share of the third distribution of the Net Settlement Fund in the Enron Corporation Securities Litigation class action in the amount of $32,326.45 is attached.

9. Attached is a copy of a check from the Coral Gables Firefighters Pension Trust for their contribution payments for the 99-1 minimum benefits for fiscal years 2009/2010 and 2010/2011 in the amount of $104,542.00 ($52,271.00/year).

10. A copy of an email from the City Attorney to the City Clerk regarding her opinion relating to the provisions involving the Rule of 70 versus the Rule of 80 for appointed officials is attached for the Board's information.

11. A copy of a Wall Street Journal Review and Outlook article dated January 19, 2011 regarding the Utah Pension Model is attached for the Board's information.

12. A copy of a Wall Street Journal op-ed article dated January 25, 2011 regarding public unions is attached for the Board's information.

13. Information on the National Conference on Public Employee Retirement Systems (NCPERS) 2011 Annual Conference and Exhibition in Miami, FL from May 21, 2011 through May 26, 2011 is attached for the Board's information.

14. Copies of the City Beautiful e-News newsletters giving the latest news and information about the City of Coral Gables are included for the Board's information.

6. Employee Benefits:
(The Administrative Manager recommends approval of the following Employee Benefits.) *(Agenda Item 9).*

<u>Retirement Benefits:</u>

Retirement application of Victor Goizueta of the Automotive Department, 24 years and 5 months, Option 2B-66 2/3%, effective February 1, 2011.

RESOLUTION 3144
A RESOLUTION GRANTING
NORMAL RETIREMENT BENEFITS
TO
VICTOR GOIZUETA

WHEREAS, Victor Goizueta has applied for retirement effective February 1, 2011, and,

WHEREAS, Victor Goizueta requests to take Option 2B-66 2/3% with his last working day January 31, 2011.

NOW THEREFORE, BE IT RESOLVED BY THE BOARD OF THE CORAL GABLES RETIREMENT SYSTEM;

That the Custodian of the Coral Gables Retirement System, is hereby authorized to pay Victor Goizueta retirement benefits under Option 2B-66 2/3% as certified by the Actuary, the first day of every month, beginning February 1, 2011 and continuing as long as the pensioner or beneficiary shall receive benefits in accordance with the conditions of the option selected.

A motion to approve Mr. Goizueta's retirement application was made by Mr. Naclerio and seconded by Mr. Garcia-Linares. Motion unanimously approved (7-0).

<u>DROP Benefits</u>

DROP application of Dennis Poin of the Building and Zoning Department. Effective date February 1, 2011.

DROP application of Michael Jennings of the Fire Department. Effective date February 1, 2011.

DROP application of Gail Springer of the Public Works Department. Effective date February 1, 2011.

DROP application of Caryn Cotton of the Human Resources Department. Effective date February 1, 2011.

A motion was made by Mr. Hill and seconded by Mr. Easley to approve all applications for DROP. Motion unanimously approved (7-0).

7. Submission of bills for approval. (Administrative Manager recommends approval of the following invoices). *(Agenda Item 10).*

Stanley Holcombe & Associates, Inc. invoice #3740 dated January 26, 2011 for actuarial consulting services from October 9, 2010 through January 3, 2011 in the amount of $8,700.00. This invoice is in accordance with the contract between Stanley, Holcombe & Associates and Coral Gables Retirement System signed on December 17, 2008.

A motion was made by Mr. Space and seconded by Mr. Easley to approve the Stanley Holcombe & Associates invoice in the amount of $8,700.00. Motion unanimously approved (7-0).

Goldstein Schechter Koch invoice #79046 dated January 24, 2011 for audit services for year ending September 30, 2010 in the amount of $10,000.00. This invoice is in accordance with the contract between Goldstein Schechter Koch and Coral Gables Retirement System signed on February 4, 2010.

A motion was made by Mr. Hill and seconded by Mr. Space to approve the Goldstein Schechter Koch invoice in the amount of $10,000.00. Motion unanimously approved (7-0).

8. Investment Issues. *(Agenda Item 11).*
David West of The Bogdahn Group addresses the attorney's question. For the record The Bogdahn Group does not receive any compensation from any vendor they might recommend to the table including any of the managers that were

recommended at the Investment Committee meeting. Part of their assembly of the business model they have is to try and set up a structure to avoid any type of conflict of interest. They receive no direct or indirect compensation and they offer their personal financials as partners to the City auditors so that compensation path can be verified.

Mr. West informs that they had a very good Investment Committee meeting. They went through the list of managers to be reviewed for replacement of Aletheia. The following three managers are recommended by the Committee for interviews: Alger, Brown and Wells. Those interviews will happen at the next regular meeting. Chairperson Huston asks if the Investment Committee is definitely recommending that they terminate affiliation with Aletheia. Mr. West responds affirmatively. The recommendation to terminate Aletheia was accepted and they went through the reasons reiterating what he communicated to the full Board prior. That recommendation was accepted by the Committee and lead to the discussion of the potential replacement managers. The recommendation was to proceed in the course of normal business. They are not suggesting a fire sale situation that requires immediate adjustment. Procedurally there will be no letter of termination sent to Aletheia until the Board succeeds in finding a predecessor and the contract process is completed.

A motion was made by Mr. Easley and seconded by Mr. Naclerio to interview Alger, Brown and Wells to replace Aletheia. Motion unanimously approved (7-0).

Mr. West reviews the January performance. As of January 31st the total plan assets are about $2.5 million into new territory so a major hurdle has gone by as they look through the January performance with a little perspective. There were some very significant decisions in manager allocations that had a very positive impact over the last year and a half. They have been monitoring MD Sass very closely and they continue to perform very well. In one month the investments added 3.94% and fiscal year to date is at 19.77%.

Mr. Space asks if they lower the assumption rate would that have them change their allocation to a more conservative allocation which would expect to make less than 7.75%. Also is there anything they can do to protect their downside? Mr. West states that if they reduce the assumption rate then they would be adjusting the allocation and becoming more conservative. Were that to happen they would suggest a two phase approach. Their funding gap to the market value in the actuarial valuation of assets is delayed because the smoothing affect and that is diluting the positive impact of the investments. He thinks it is a two part decision in the event that happens. They need to continue to invest as the program is structured until they can close that gap and normalize through the cycle. If and when the assumption rate is lowered the reason it is being lowered is a desire to eliminate the volatility and making that objective. Then they would have to lower the risk of the portfolio which would then result in an asset allocation that was more consistent of a lower assumption rate. Regarding the second question of protecting the downside, he thinks all the steps have been taken with the alternatives and the additional line item investment products in managers they have in the portfolio. He thinks they have accomplished huge in-roads to address that with the current assumption rate. They have diversified into a number of different asset classes which should cycle differently during periods of duress and in a normal bear market environment and a normal recession or a normal market downturn of significance. He would argue that this portfolio is in much better shape for downside protection than it might have been in the past.

Chairperson Huston asks if they know of other public pension plans discussing lowering their assumption rate. Mr. West responds affirmatively. It is a natural discussion to have. Everyone is trying to waive the short term time horizon with a more realistic pension liability longer term horizon and everyone is weighing the cost of a quarter point incremental decrease in that rate and what the contribution rate will be within the cities. Maybe half the cases or two-third of the cases there is discussion that has moved along with the notion of over a five year period or other timeline of a reduction rate. Plans that are at 8.25% are definitely moving to get to 8% or 7.75%. He doesn't think that any of the plans he knows of are looking to go lower than 7.5%. Any plan that has an 8% or more assumption rate is looking at reducing that rate.

Chairperson Huston asks Mr. Nelson about the $2.5 million in reserve. Mr. Nelson explains that the result of the general employees and excluded employees changes in the pension plan resulted in a $3.3 million savings to the City's annual contribution bringing it from $24.5 million to $21.2 million annual funding. The $3.3 million savings is a true savings for the City. They took $2.5 million of that and placed it in a separate fund. It is not in the general fund or retirement fund but in a fund called the Pension Sustainability Fund which was created this year. If they were to place the assets in the retirement fund the City could not bring that money back to the City. The goal is to maintain a level funding by the City. For budget purposes on the City side as pension funding was increasing and revenues were decreasing they were not able to meet obligations which resulted in employee layoffs. In order to maintain stability in the City's annual funding this fund was set aside to be used for a level funding if there were increases in the contribution.

Mr. Naclerio asks what do they go through to create a fund and how is it accounted for on the City's part. Is it an unrestricted asset as far as their auditors are concerned? Mr. Nelson answers affirmatively. A fund can be created through the budget process and it went through the Commission. It is part of their budget document that created a Pension Sustainability Fund. The moneys were placed in there and are at the discretion of the City and not the pension fund. This fund is administered by the City. The City Manager and the City Commission have the authority to move those funds and direct them for any purpose. If they get into a situation where their values decrease again and instead of laying off people the

City may need to go into the various funds they have created to help with that situation. They are at a critical stage when they lost 100 general employees and police and fire will not be affected. Mr. Naclerio asks what the difference is between establishing this pension fund and having the City Manager say there is some money in the general fund which he hopes to use in the future to fund the pension. What is the difference? Mr. Nelson informs that the difference is that the separate fund was created for a purpose to sustain a level funding for the future and that is the whole intent.

Mr. Garcia-Linares comments that last year the City funded the plan at $24 million and because of that change the actuary reports that the funding is $21 million. Is the City going to fund the $21 million or is the City going to use the $2.5 million to increase the $21 million and start paying off the unfunded liability? If they are going to fund it $21 million they are back to the days of taking advantage of the upturn and reducing the funding they need to fund for the pension plan for the future. Mr. Nelson responds that he can't tell them what they will do for the new budget because of all the issues they are dealing with. They were at $21.5 million and that is because the changes in the ordinance. Now they are at $21.2 million which is their funding level now. If the actuary comes and says it goes from $21.2 million to $20 million then the City will fund the $20 million but the difference of $1.2 million will be put into the Pension Sustainability Fund. That would be prudent to build up or will they use the $1.2 million difference and not lay off employees. They are going to fund the pension plan but they do not want to lay off their public safety people.

Mr. Garcia-Linares thinks the only control the Board has is to lower the assumption rate and by doing that they will force the additional funding of the unfunded liability. He thinks the City is going to put them in a catch-22 position where they are not going to have a choice but to lower the assumption rate in order to correct what they perceive as an issue with the unfunded liability. Mr. Naclerio doesn't think the public is going to agree to fund the plan and get rid of their uniformed employees. Mr. Space thinks the only advantage he sees to lower the assumption rate is to lower the risk of the portfolio.

Mr. Easley comments that he is not opposed to lowering the assumption rate once they get the information from the actuary but he thinks that the Board needs to keep in mind that they are talking about peoples' livelihood. It may not be police or fire but the City always seems to jump on the general employees and start tearing them apart first. The general employees have taken quite a hit and he thinks there is a balance. He knows they have tough times but if it comes down to lowering the assumption rate which would cost another 50 people their jobs he is not for something like that. They have to find a middle ground that can be reasonable to both sides.

Mr. West continues. All the recommendations they have brought forward to the Board they have modeled them and forecasted them and are trying to put together a portfolio that has the highest probability of achieving whatever the assumption rate is and right now it is 7.75%. All the recommendations they have brought forward they have been very cognizant of what that return is and don't want to jeopardize the ability to achieve that by reducing the risk. They are projecting with assumptions. They would have to see at least a half a point before they would throttle back to risky assets which are equities.

Mr. Naclerio states that since he has been on this Board he has not looked at an investment solely for making 7.75% return. No one is making a 7.75% return in a diversified portfolio on a consistent basis. Chairperson Huston remembers that the last time they lowered their rate the City refused to fund the plan at that rate and continued to fund at 9%. A $3 million receivable was created in the actuary report and it stood out there for several years compounding interest. They finally got rid of that receivable through the settlement with UBS. They can't act unilaterally unless the City agrees or they are going to have another receivable problem.

Mr. Garcia-Linares asks Mr. Nelson to take off his Finance Director hat and be only the Trustee for the plan. Would his recommendation change in terms of whether they should have the $2.5 million in order for the Board to reduce their assumption rate from 7.75%? Mr. Nelson recommends that the Board wait until they see the actuary report and look at the performance and look at the unfunded liability and make a decision after they see that. Mr. Garcia-Linares thinks that this is one example of the Finance Director wearing two hats puts him in a very difficult position to answer questions. Mr. Nelson informs that he likes data in order to make a decision.

9. Election of a Chairman for the Retirement Board [Retirement Ordinance Section 50-88(a)]. (Item deferred from January 13, 2011 meeting.) *(Agenda Item 2).*
A motion was made by Mr. Garcia-Linares and seconded by Mr. Naclerio to nominate Troy Easley for Chairperson of the Board. Motion unanimously approved (7-0).

10. Election of a Vice-Chairman for the Retirement Board [Retirement Ordinance Section 50-88(b)]. (Item deferred from January 13, 2011 meeting.) *(Agenda Item 3).*
A motion was made by Mr. Garcia-Linares and seconded by Mr. Geraci to nominate Les Space for Vice-Chairperson of the Board. Motion unanimously approved (7-0).

11. Election of Investment Committee members [Retirement Ordinance Section 50-121]. (Item deferred from January 13, 2011 meeting.) *(Agenda Item 4).*
A motion was made by Mr. Garcia-Linares and seconded by Mr. Space to nominate Randy Hoff, Steve Naclerio and Donald Hill for Investment Committee members. Motion unanimously approved (7-0).

12. Old Business.
    There was no old business discussed.

13. New Business.
    Mr. Naclerio thanks Mr. Huston for his years of service as Chairperson.

Set next meeting date for Thursday, March 10, 2011 at 8:00 a.m. in the Youth Center Auditorium.

Meeting adjourned at 10:41 a.m.

APPROVED

TROY EASLEY
CHAIRPERSON

ATTEST:

KIMBERLY V. GROOME
RETIREMENT SYSTEM ADMINISTRATOR