CORAL GABLES RETIREMENT SYSTEM
RETIREMENT BOARD AGENDA
THURSDAY, MAY 11, 2017
8:00 A.M.
UNIVERSITY OF MIAMI NEWMAN ALUMNI CENTER
6200 SAN AMARO DRIVE
4TH FLOOR CONFERENCE ROOM

MEMBERS:	M 16	J 16	A 16	S 16	O 16	N 16	J 17	F 17	M 17	A 17	M 17	APPOINTED BY:
Andy Gomez	E	P	P	E	P	P	P	P	P	P	P	Mayor Jim Cason
James Gueits	E	E	E	P	P	P	E	P	P	P	P	Vice Mayor C. Quesada
Charles Rigl	P	P	P	P	P	P	P	P	P	P	P	Commissioner Jeanette Slesnick
Michael Gold	P	P	P	P	P	P	P	P	E	P	E	Commissioner Patricia Keon
Rene Alvarez	P	E	E	P	E	P	E	P	P	P	P	Commissioner Vince Lago
Joshua Nunez	P	E	P	P	P	P	E	E	E	E	P	Police Representative
Vacant	-	-	-	-	-	-	-	-	-	-	-	Member at Large
Carlos Fleites	-	-	-	-	-	-	P	P	P	E	P	General Employees
Troy Easley	E	P	P	E	P	P	E	P	P	E	P	Fire Representative
Diana Gomez	P	P	P	P	P	P	P	P	E	P	P	Finance Director
Raquel Elejabarrieta	-	-	-	-	-	-	-	-	P	P	P	Labor Relations and Risk Management
Manuel A. Garcia-Linares	E	P	E	E	P	P	P	P	P	E	P	City Manager Appointee
Pete Chircut	-	-	-	-	-	P	E	P	P	P	P	City Manager Appointee

STAFF:
Kimberly Groome, Administrative Manager
Ornelisa Coffy, Retirement System Assistant
Alan Greenfield, Board Attorney
Dave West, AndCo Consulting

P = Present
E = Excused
A = Absent

GUEST:
James Skinner, resident
Terri Sheppard, Teamster

1. Roll call.
Chairperson Gomez calls the meeting to order at 8:02 a.m. All Board members were in attendance except Mr. Gold, Mr. Gueits, Mr. Chircut and Ms. Elejabarrieta. Mr. Gold was excused.

2. Consent Agenda.

All items listed within this section entitled "Consent Agenda" are considered to be self-explanatory and are not expected to require additional review or discussion, unless a member of the Retirement Board or a citizen so requests, in which case, the item will be removed from the Consent Agenda and considered along with the regular order of business. Hearing no objections to the items listed under the "Consent Agenda", a vote on the adoption of the Consent Agenda will be taken.

2A. The Administrative Manager recommends approval of the Retirement Board meeting minutes for April 13, 2017.

2B. The Administrative Manager recommends approval of the Report of the Administrative Manager.

2C. The Administrative Manager recommends approval for the following invoices:

1. The City of Coral Gables invoice #329569 for the rental of City’s public facilities in the amount of $1,665.25 ($555.08/month) for the months of April thru June 2017.
2. The City of Coral Gables invoice #329597 for general liability insurance in the amount of $985.75 ($328.58/month) for the months of April thru June 2017.

A motion was made by Mr. Nunez and seconded by Mr. Fleites to approve the Consent Agenda. Motion unanimously approved (8-0).

Mr. Chircut and Ms. Elejabarrieta arrived at this time.

3. Comments from Retirement Board Chairperson.

Chairperson Gomez updates the Board with discussions from City Hall. He advises that he was supposed to be present at the City Commission meeting this past Tuesday to discuss any questions the Commissioners would have regarding the ordinance change. The issue was that the Administrative Manager sitting as Chair to the Investment Committee being a conflict. The City Manager called and all Commissioners were in agreement that there was no need for him to be present at the meeting. Chairperson Gomez asks Ms. Gomez if she was present and she acknowledges that she was. Chairperson Gomez continues that the next issue will be to elect a new chairperson for the Investment Committee. Ms. Gomez points out that the ordinance has only passed on first reading and the ordinance states that the Investment Committee elects the chairperson and not the Board. Chairperson Gomez thanks Ms. Gomez for the clarification.

Chairperson Gomez reminds the Board that the next meeting is in June and it will be a joint meeting with the Commissioners and Mayor. He would like to make it a meeting with the City Manager and the Commissioners. The meeting will be moved due to the Youth Center due to the lack of space at the University of Miami Newman Center. He will be meeting with the City Manager in the next week to develop an agenda for the meeting. In the meantime, he and Ms. Groome are in the process of setting up a date to meet with Commissioner Mike Mena to bring him up to date with the Retirement System and Retirement Board.

Chairperson Gomez continues that after discussing with the Board Attorney he felt very uncomfortable approving Ms. Groome’s vacation leave given that she is a City employee. The

City Manager advised that she would speak with Ms. Gomez on the matter. Mr. Greenfield requests to be at the meeting. Chairperson Gomez informs that he will make sure that Mr. Greenfield is present.

4. Items from the Board attorney.

Mr. Greenfield reports that he has had correspondence with a few of the Board members as well as Ms. Groome and Ms. Coffy. He has created a Vendor Review procedure for the Board's vendors. Chairperson Gomez informs that he would like to further discuss the review procedure under Old Business. He makes it clear that the intent is not to get rid of any of the vendors but because the Board wants to always be transparent he believes it is best to always have a policy in place through a periodic cycle to review the vendors that provide services to the Board.

Mr. Greenfield comments on Ms. Groome's evaluation. It has been sent to all the Board members. There was a process as to how the evaluation was handled last year. Last year each of the Board members did an evaluation on Ms. Groome. After completing the evaluation, it was sent to him and he forwarded the results to the Chairperson. The final evaluation is signed by the Chairperson and sent to the City for various signatures. Chairperson Gomez advises that he would like to hold off on doing Ms. Groome's review until he speaks to the City Manager because he would like to address the whole issue at one time. Mr. Garcia-Linares suggests that the Board continue with the process that was set in place for Ms. Groome's evaluation and hold off on the submission of the form until after the Chairperson Gomez with the City Manager, Chairperson Gomez agrees. Mr. Greenfield informs that he has nothing further to report to the Board.

Mr. Garcia-Linares asks if there will be discussion on Migdalia Ruiz. The Board was briefed at the April meeting. Ms. Ruiz is the employee who stole $80,000 in a span of two years in the Finance Department. He understands that Ms. Ruiz will still be paid until convicted. If she is convicted, how will the funds that have been paid out to her be recouped? Ms. Gomez responds that if the City wins the case then the funds can be returned by restitution. Mr. Garcia-Linares asks if there is any way to hold her payment until a verdict has been made. Ms. Gomez answers that Ms. Ruiz is innocent until proven guilty and so she is allowed to receive those fund. Chairperson Gomez expresses that the situation is very unfortunate.

5. Presentation of the 10/1/2016 Actuarial Valuation report by Gabriel Roeder Smith.

Pete Strong of Gabriel Roeder Smith reports on the 2016 Actuarial Valuation. Actual contributions for the last year were $26,975,101 from the City plus $145,830 of annual State revenue for a total of $27,120,840. The total annual required contribution was $23,838,224. With extra payments of $3,273,396 that were made in October 2016 and applied towards the unfunded actuarial liability to eliminate or reduce the unfunded liability. The extra payment was applied to the oldest experience lost amortization basis as advised by Diana Gomez. In the last five years the contribution has slowly been trending down. This has been driven by several things such as experience gains and extra payments made by the City to the liability.

There were provisions of benefits throughout the year. Effective February 28, 2017 there was an enhanced benefit for police officers for the 25th year of Credited Service equal to the percentage of Average Final Compensation (AFC) needed to increase the total retirement benefit to 75% of AFC. Also for those who do not exceed $95,000 a year, the total pension benefit was capped at $95,000 per year. For valuation purposes this cap will increase the plan's long term inflation assumption after 2019 which is about 2.5% per year. Also, the maximum drop period was increased from 60 months to 84 months for members currently in the DROP and for members eligible to enter the DROP by 9/30/2019. The cap for non-excludable employees is at 15%. Benefit revisions for the police resulted in a $145,697 increase in the City contribution. As of 10/1/2016 there are 12 new police officers in the plan and so the overall impact is a little higher than initially calculated.

Under Revisions and Assumptions, the mortality table is now the same as the FRS assumption. This change was made in order to use the same mortality assumptions used by the Florida Retirement System, as now required under the Florida Statute. Since the 1970's to today annual mortality rates have improved each year on average. FRS adopted the table in 2014 and all municipal plans are required to adopt this table. Rates beyond the age of 95 have no projection of mortality improvement. Ms. Groome asks if the Retirement Office will be receiving new tables for 10/1/17. Mr. Strong explains that they will use whatever FRS uses, they are expected to do another experience study in 2019. The mortality change did increase the contribution a little over a million dollars and the unfunded by $11.5 million.

Mr. Gueits arrived at this time.

The Board adopted a new funding policy in January of 2017. The Funding policy became effective October 1, 2017. A minor change has been made due to this new adoption. The method for calculating the expected net rate of return on assets from determining the Actuarial Value of Assets has been changed to use the beginning of the year Market Value of Assets instead of the beginning of the year Actuarial Value of Assets. This has created a bump in assets. Ms. Gomez asks what the increase is of the unfunded due to the revisions for police. Mr. Strong replies that it is roughly a $1.1 million increase of the unfunded. There was a net actuarial gain of $4,713,880 which means the actual experience was more favorable than expected. The gain resulted primarily from a greater investment return than expected. It was roughly a total gain of about $6 million. The investment return was 9.9% based on the actuarial value of assets versus the expected rate of return of 7.75%. There were disability and mortality experiences that offset sources of actuarial experience losses and there was a $750,000 experience loss due to that. Ms. Gomez asks what the assumptions are for disability. Mr. Strong informs that there were two service connected disabilities for the year. The assumption was low as it was assumed there would be one. He continues informing that both disabilities were police officers and the Board's decision to use total pay for their disability calculation was also factored in. Ms. Groome asks what the expected deaths were because they had a lot of deaths reported for the year. Mr. Strong responds that there were a total of 15 deaths through the past year. Chairperson Gomez asks if anyone knows the average age of a City employee. Mr. Strong answers that the average age is 41.2 as of 10/1/2016.

Mr. Strong explains the detailed breakdown of the net actuarial gain and loss. There was a gain for police and a loss for firefighters. There was a loss with the firefighters due to the retroactive pay increases that were given. There were five people who got promotions and moved from General non-excluded to General excluded. There was a large amount of liability in the move of these employees and it created a large experience loss for excluded and a large gain for non-excluded. About a million dollars was moved from non-excluded to excluded because of the liability. This year's funded ratio is 60.8% compared to 59.4% last year. Prior to changes in benefits and assumptions, the funded ratio would have been 62.2% for this year. If market value had been the basis for the valuation, the City contribution rate would have been 60.55% and the funded ratio would have been 60.2%. The actuarial value of assets has gradually risen in the last five years. Liability has also been moving up but not as fast. The gap between the two is slowly decreasing. The actuarial value of assets does exceed the market value of assets and this is the first time this has happened in a few years. The market value was higher for many years compared to the actuarial value of assets. The actuarial value of assets exceeds the market value of assets by $3,762,562 as of the valuation date.

Mr. Strong points out that the Funding Policy that was adopted in January of 2017 states that the economically based actuarial assumptions, including the general inflation assumption and the net investment return assumption, shall be based on forward looking expectations over a medium to long-term horizon (10-25 years). The Funding Policy recommends the Board give consideration to the arithmetic and geometric mean of forecasted investment returns when selecting a net investment return assumption based on an investment consultant analysis done of eight different investment consultants forward looking forecasts of returns over the next 10 to 25 years including JP Morgan, Wilshire and Mercer to name a few who are used by FRS. The arithmetic mean is simply the year average of expected returns. The arithmetic mean of forecasted investment returns for the Coral Gables Retirement System is 7.49%. On a geometric basis which is the compound average, there is a lot of volatility. That volatility causes reduction of the compound average to drop. The Coral Gables Retirement System compound average is 6.77%. The probability of earning 7.75% over the next 20 years is about 36% which is a little below the 50% target. The 7.75% significantly could be considered a reasonable range for this assumption; it is recommended that consideration be given to lowering the net investment return assumption based on the current arithmetic and geometric means of forecasted returns.

Mr. West states that accepting that the modeling is arguable back and forth. The other alternative would be to increase the risk of the investment portfolio to then increase the 50% percentile outcome. He advises that as the investment consultant, they are not recommending that because they have established a comfortable structure for the investment portfolio. He does want all the Board members to be aware that this is the other side of the formula that could be addressed in the event that assumptions did not want to be addressed. Mr. Strong believes there may be legislation to require plans to target the long term geometric forecasts of returns and if it had passed any plan that wasn't at their 50% would have to come down 25 basis points until they reached the mark. The FRS asset allocation is not that different from the Coral Gables Retirement Plan. FRS allocation is different plus or minus 5% so it is not materially different. Mr. West thinks the difference is how it is implemented. Mr. Easley believes that many of the assumptions from previous years were extremely misleading and outdated and that is what made the numbers look nice.

Mr. Strong states that there are two main pieces of the contributions for normal cost and the payments on the unfunded liability. The payment of the unfunded liability this year is $21 million. The total overall normal cost expected to be earned is about $6.3 million. The net normal cost taking out normal City contributions would be roughly about $2 million. Mr. West states that at one time there was an extreme misconception that pension costs were out of control and no matter what was done the numbers would not go away. It is very important that they continue with that education process to help others understand. Mr. Easley asks if this plan is at the high end or low end of normal costs for employees compared to other plans. Mr. Strong replies that this plan is at the low end. The normal average cost rates are at roughly 15% to 18%. Ms. Gomez asks how much it costs for each employee. Mr. Strong answers that it roughly costs 6-1/2% pay and the more new members the less the contribution. Mr. Fleites asks for clarification. Mr. Strong explains that if there are more members in the plan then the cost to the City for each person hired is just a normal cost rate because they don't come in with any unfunded liability. They will increase the dollar amount but only by 6.29%. The employer normal cost as a percentage of covered payroll for general employees would be 4.0%; for general non-excluded it would be 2.53%; for police it is 9.19% and for firefighters it is 11.23%.

Mr. Alvarez left the meeting at this time.

Mr. Strong explains the increased contribution allocations for general and excluded members. He advises that is started with the 10/1/09 City contributions as a base line. For General Non-excluded the baseline was 31.04% and for general excluded the baseline was 40.31%. The total member contribution rate will be 11.02% for general excluded employees and 15% for general non-excluded employees. Mr. Fleites asks that since the unfunded liability is decreasing do they see the employee contribution rates decreasing in the future also. Mr. Strong answers affirmatively. He does see that happening as long as the plan keeps earning the expected returns. He explains that with each amortization basis that gets paid off they are reducing the contribution requirement.

Ms. Elejabarrieta asks who notifies the employees of their contribution changes. Mr. Garcia-Linares responds that the City informs the employees of the change. Mr. Strong advises that the amortization schedule shows the expected UAAL as long as the required City contributions are made. The goal to pay off the expected UAAL would probably be reached in 16 years if the extra funds are paid every year with the City contribution.

Mr. Strong speaks to the COLA memo. He was asked at the last Board meeting to draft a memo estimating the actuarial impact on the City of Coral Gables Retirement System of the proposed COLA settlement for class members. There is a question on whether they should advance fund future COLA's and the way the proposal is worded it goes back to the old formula in determining COLA's for the class members. It basically states that anytime the market value is over 10% then a COLA will be given. He advises that under an actuarial standpoint the COLA should be prefunded. Every third year or so the return on average was about 10% and if that happens with regularity there will be a retro COLA by the time the last one was given. The COLA can be over written by the Commission. There is a possibility in any future year that the Commission could vote against granting the COLA for any reasons they decide. One of the reasons could be the current contribution is too high and this is different than the system set before. The total lump sum amount of retroactive COLA adjustments is estimated to be $4.8 million. This would roughly affect about 800 participants and would be reflected in 800 monthly benefits. That combined with the lump sum would increase the liability by almost $14 million.

Mr. Greenfield asks if the payment is coming out of the Retirement System or out of the City finances. Mr. Strong responds that it is a retirement benefit and so it will come out of the system's funds but the City could always reimburse those funds. He advises that over time the City is paying for it. Ms. Gomez asks if the City decided to make an infusion to cover a portion of the amount how they would do so. Mr. Strong replies that the City would simply need to make an extra payment. The Retirement System could always offset the base created by this COLA with an extra payment. The cost of prefunding the COLA is the prudent thing to do but otherwise every time a COLA is immediately granted it will immediately increase the unfunded liability. Mr. Chircut asks if Mr. Strong is recommending a separate account for the COLA. Mr. Strong believes a combined account is fine. He believes the prudent thing to do is to prefund the COLA. Ms. Gomez explains that from the City perspective they are trying to get the required payment much lower by making the extra payments so that way in the future they are able to absorb things without going over.

A motion was made by Mr. Garcia-Linares and seconded by Mr. Easley to approve the October 1, 2016 Actuarial Valuation Report. Motion unanimously approved (10-0).

6. Investment Issues.

Dave West reports on the investment performance. Fiscal year to date, net manager fees excluding the Tortoise Fund was at 8.05%. The fund is in a surplus position and it is a happy position to be in. For the period ending April 30th the plan one year is annualizing at 13.21%; 7.15% for 3 years and 8.72% for 5 years. They are also moving ahead in the investment policy bench mark fiscal year to today. The total policy is at 7.11%. Active management is outperforming the index strategies lately. Eagle capital is ahead fiscal year to date. MD Sass has moved back ahead at 12.57% vs the benchmark of 10.29%. They are still indexed with the S&P 500 and the S&P 400. Winslow is still a little behind year to date but lately they have moved ahead. Wells Capital has made a nice turn closer to its benchmark. In international equity, RBC has been very steady and WCM has moved back ahead from the huge spike in interest rates. In the domestic fixed income, the Aggregate Bond fiscal year to date is close to flat at -1.50%. The PIMCO DISCO II fund fiscal year to date is at 8.63%. The real-estate funds continue to do well. The JP Morgan Strategic Fund fiscal year to date is at 4.38% and JP Morgan Special Situation Property Fund is 4.63%. The Black Rock fund fiscal year to date is at 4.77%. PIMCO Tac Ops fund was up almost 6% and Titan finally has turned around with positive numbers at 1.95%. They have been tracking the Tortoise fund at 18.4%.

The total fund opened fiscal year to date at $340,507,367. Contributions were $26,220,836. There were distributions of $27,100,000. Management fees were 1,449,489. Other expenses were $107,505 and income was at $4,832,867. The appreciation was $24,796,220 and the fund closed on April 30th at $367,700,296.

Ms. Groome points out the index fund accounts will need to be reallocated soon. Mr. West agrees and advises that the Northern Trust S&P 500 Fund is down to $7.8 million, the S&P 400 is steady at $22.2 million and the NT Aggregate Bond is depleting the most now at $5.3 million. Mr. West recommends that they replenish the funds in two parts. One by reloading and pulling $5 million from the fixed income managers, Richmond Capital and JK Milne, and invest the proceeds into the Northern Trust Aggregate fund.

A motion was made to pull $5 million from fixed income managers, Richmond Capital and JK Milne, and invest the proceeds into the Northern Trust Aggregate fund. Motion unanimously approved (10-0).

7. Old Business.

Chairperson Gomez asks everyone to look at the handouts from the Board Attorney in reference to the Vendor Review Procedures that were asked to be drafted. Mr. Greenfield explains that the review procedures he created is a five person committee shall be appointed each year by the Chair to sit on the Vendor Review Committee (VRC). These elected persons are to develop a procedure and rules whereby the VRC will meet and interview each vendor. The meeting shall be subject to the provisions of the Florida Sunshine Law. The VRC's recommendation to the Board shall be binding upon the Board and if the VRC recommendation is for the Board to retain the vendor then no further action of the Board shall be required. Chairperson Gomez asks the Board members to review the procedures and bring forth any of their ideas or concerns at the June meeting. He encourages all Board members to send any concerns directly to Mr. Greenfield.

8. New Business.

Ms. Elejabarrieta asks what they are approving on the Consent Agenda. Do the individuals who are retiring listed in the Administrative Manager's Report need to be approved. Ms. Groome informs that the individuals' DROP was already approved by the Board and the listing is of those employees leaving the DROP. The Board wanted to be aware if any of the employees participating in the DROP were affected by the IRS 415b and that is what is listed in the report. It is for the Board's information.

9. Public Comment.

There was no public comment.

10. Adjournment.

The next scheduled Retirement Board meeting is set for Thursday, June 8, 2017 at 8:00 a.m. Location to be announced.

Meeting adjourned at 10:15 a.m.

APPROVED

DR. ANDY GOMEZ
CHAIRPERSON

ATTEST:

KIMBERLY V. GROOME
ADMINISTRATIVE MANAGER