CORAL GABLES RETIREMENT SYSTEM
Minutes of August 13, 2009
Police Community Meeting Room
2801 Salzedo Street – Police Station Basement
8:00 a.m.

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

STAFF:
Kimberly Groome, Administrative Manager
Donald G. Nelson, Finance Director
Troy Brown, The Bogdahn Group
Dave West, The Bogdahn Group
Alan E. Greenfield, Board Attorney
Randall Stanley, Stanley Holcombe & Associates
Jonathan Craven, Stanley Holcombe & Associates

A = Absent
E = Excused Absent
P = Present

GUESTS:
Patrick Salerno, City Manager
Marjorie Adler, Human Resources Director
John Baublitz, President of FOP
Steve Bush, Coral Gables Fire Department
Bill Curtin

Chairperson Tom Huston calls the meeting to order at 8:05 a.m. There was a quorum present.

1. Roll call.

2. Approval of the Retirement Board meeting minutes for June 22, 2009.

   A motion was made by Mr. Goizueta and seconded by Mr. Easley to approve the meeting minutes of June 22, 2009. Motion unanimously approved (7-0).

3. Approval of the Retirement Board Executive Summary minutes for June 22, 2009.

A motion was made by Mr. Goizueta and seconded by Mr. Sibley to approve the Executive Summary minutes of June 22, 2009. Motion unanimously approved (7-0).

4. Items from the Board attorney.

Alan Greenfield, Board Attorney, informs that he received all the releases regarding the UBS case and now that case is history. Mr. Naclerio states that Mr. Carlson included a statement in the information on the settlement and he took out a number of disbursements to pay for his costs. Are those audited and found to be reasonable and justified before he did that or did Mr. Carlson decide to declare them reasonable and justified and retained the money? Mr. Greenfield understood that whenever an ordinary expense came up Mr. Carlson didn't clear that with anyone. He submitted the bills and they were paid. Mr. Garcia-Linares comments that prior to the last bill that was paid every bill was submitted to the Board for approval. He stated at one of the last meetings that before the Board approved the UBS settlement that he wanted to review all the expenses. He knew that what happened was going to happen. In addition to the expenses they knew about they got hit with additional $45,000 of expenses that should have been disclosed to this Board prior to approval of the settlement so they would know exactly what they were going to net. That is not what happened. They approved the settlement and then they get a closing statement that was not approved by the Board with a disbursement to their outside counsel for an additional $45,000 in costs. Mr. Greenfield informs that he will review the bill to make sure the expenses were reasonable.

Mr. Greenfield states that Mr. Stanley wrote an opinion in June relative to the treatment of the settlement. He made his recommendation as to how the settlement should be treated actuarially. The recommendation was very clear. Ms. Groome informs that the Board made a motion at the last Board meeting regarding how the settlement should be treated. Mr. Garcia-Linares remembers that neither the actuary nor the attorney were present for that meeting.

Mr. Naclerio thought they had the option of hearing from the actuary and the attorney and make a final decision on how to treat the settlement. At the last meeting the Board understood that the City, the actuary and the Board attorney had different positions as to how to treat the settlement. Where are they on that? Mr. Greenfield informs that his position is consistent with Mr. Stanley's that it should be treated as investment income. Mr. Stanley confirms that his recommendation is that the settlement amount be treated as investment income. He didn't intend to close the door on alternative treatment. He called Keith Brinkman from the State of Florida Retirement Division and verbally laid out the arguments for both positions. If you look at the settlement as compensation for investment losses then the settlement is an offset of that investment loss. They average market value over five years which is a smoothed value. Having done that they look at the difference between the smoothed value and what they expected the value should be based upon the 7.75% assumption. The difference is a part of the system's experience for that year that is recognized as an experience gain or an experience loss and is amortized over 30 years. You have two things happening with this kind of money. It gets smoothed over 5 years and then it gets amortized over 30 years. Mr. Garcia-Linares clarifies that is what happened to the losses. Mr. Stanley agrees. The losses would have also gone through the 5 year smoothing too. Looking at the alternative argument is the City's contributions were pushed upward because of these investment results. To that extent the settlement could be considered to be some offset against those increased costs. What he intends to do is to get some reaction from Tallahassee as to what they are permitted to do. You have the issue of the contribution receivable from the City and he suggested that the alternative of using it as an offset against the City contributions would be tied to using it to eliminate the contribution receivable depending on what Mr. Brinkman's office says. There may be a middle ground.

Chairperson Huston explains that at the June meeting, the Board approved the motion that the UBS settlement amount of $1,785,000.00 be accounted as current revenue into the retirement system that would ultimately offset the contribution from the City for next fiscal year. He and Mr. Garcia-Linares dissented because they wanted to hear from the actuary and the Board attorney before making that decision. Mr. Naclerio comments that he remembers that the Board approved it and everyone agreed that they had to get the professional opinion of their actuary and attorney. Then they could reconsider the motion. Mr. Greenfield informs that he looks at this situation as a lawsuit. The lawsuit says that the plaintiff, the Retirement System not the City, was damaged as a result of certain actions of UBS. Had they gone to trial he believes there would have been verdict in favor of the System against UBS and the settlement was the settlement of the System getting money from UBS. From an attorney's point of view these were damages retained by the Retirement System and this money was to compensate those damages. He believes it should be investment income to the plan because it was part of the investment loss of the Retirement System.

Mr. Nelson states that the City's position was clear at the last meeting and it continues to be the same. It comes down to accounting treatment. There is no doubt the funds came into the Retirement System. It comes down to how those funds are treated. Do they amortize it over 30 years as an investment return or do they treat it as current revenue which would result in reducing the City's contribution? That is the City's request and that is what they presented at the last meeting which was approved by the Board.

Mr. Geraci understands that the City wrote the check to make the fund whole because the losses. He is missing the point as to why they wouldn't give the City back the money. Mr. Garcia-Linares explains that the losses were smoothed over a period of time. It is not like they took all the losses in one year and then have the City pay for all the losses that year. The investment losses were smoothed over a period of time. The actuary is telling the Board to take the income and smooth it because that is the same way they took the losses initially. You take the income and you smooth it over a period of time. Mr. Stanley explains that the City wrote several checks but they were not 100% of the loss. Those checks were for amortization payments on that loss. There is a payment stream that has been set up that would have ultimately paid off the losses. It hasn't been paid off yet. The outstanding City contributions have accrued over time primarily because adjustments downward in their return assumption which is not directly related to the investment losses under UBS. The City has been charged for more because of the losses but hasn't really paid the bill for those losses so they have a City contribution receivable that goes back for a few years.

Mr. Geraci feels that they are here as a Board to look at the situation and consider what is in the best interest being flexible with the City and the Retirement Fund because that is where their fiduciaries are and at this time try and find what they consider to be the best interest to the City and the fund. The City had to come out of pocket to support the fund based on these investment losses. If the City needs the money now in order to meet certain responsibilities he thinks it would be important to all the employees to have this as part of the budget because the City had to come up with it in the past. He thinks that is in the best interest of the employees and the City.

Mr. Salerno concurs with Mr. Geraci's comments. There is flexibility involved here. This is not talking about short-changing the Retirement System. It is taking advantage of an opportunity for flexibility. By taking the benefit up front rather having the benefit spread out over time. It is for the benefit of the City during these trying times. It does have a corresponding affect for this organization, its workforce and its ability to continue services for the community. The Retirement Board and the Retirement System will not be short-changed in this process. The City has the responsibility to pay its costs and make up whatever is not contributed by the employees. That is not changing. It is just a matter of how you take that benefit.

Chairperson Huston asks if the State of Florida comes back and says you can't have it as current income you have to make it investment return then what would their response be. Or if the State comes back and agrees to the Board's motion they voted on at the June meeting would this issue drop at that point? Mr. Stanley responds if the State comes back and says it has to be investment return then in the October 1, 2009 Actuarial Report they will treat it as investment return. If the State comes back and says they can do it either way he will look to the Board as to which way they want it treated. The Board voted at the last meeting to treat it one way but there were some conditions on that vote. As actuaries they worry about the Retirement System and everything else is not extremely important to them. He points out that as of September 30, 2008 the system was just above 50% funded. Their standard target is 80%. They didn't get this way overnight and they are not trying to cure it overnight.

Mr. Garcia-Linares informs that for the Board to reconsider the motion of the June meeting a Board member who voted in favor of that motion would have to move to reconsider it. Mr. Easley thinks they need to get a response from the State first before they reconsider the motion. Mr. Goizueta recalls that they voted on the motion at the last meeting and that motion had a condition that the State agrees with that motion. Chairperson Huston asks if anyone who voted in favor of that motion want to reconsider it. Mr. Geraci, Mr. Easley and Mr. Goizueta do not want to reconsider the motion. Mr. Sibley indicates that he would like to reconsider the motion. Mr. Naclerio informs that he does not want to reconsider until he hears the State's response. Mr. Geraci asks if the

State disagrees with their motion from the last meeting is there a way they can appeal that decision. Mr. Stanley believes they can appeal.

Mr. Naclerio asks if Mr. Nelson is working with the State regarding this issue. Mr. Salerno doesn't believe that Mr. Nelson has had direct contact with the State but believes that Mr. Nelson would be willing to take part in those discussions with the State. Mr. Stanley asks for the Board to tell him what to do if the State agrees that they can use the settlement as City contributions. Are they going to use the contributions to the extent of the accrued contributions? If they use all of it as City contributions then as of today the City has no accrued outstanding contributions but has a pre-paid contribution. Mr. Greenfield thinks they should wait until they receive a response from the State as to what the permissible treatment is and then the Board can decide to interpret the response from the State.

A motion was made by Mr. Geraci and seconded by Mr. Naclerio to involve the City on behalf of the Board to negotiate with the State regarding this issue.

Discussion:
Mr. Salerno thinks that motion is appropriate. They were not involved in consultation or reviewing the letter from the actuary to the State. He thinks in the true spirit of cooperation that the Board's motion would provide consultation. In many cities in Florida draft Actuarial Reports are submitted to City Staff to comment on before they are printed. They asked the actuary for City staff to receive a draft of the current report in case they had questions or comments before the report was finalized and did not receive that opportunity. He suggests that the motion is appropriate to insure that they work together to do what is best for all parties.

Motion approved (6-1) with Mr. Goizueta dissenting. Mr. Goizueta believes that the Board hired Mr. Stanley to do his job and Mr. Nelson is the trustee and they both need to talk directly back and forth to each other.

Mr. Stanley asks that if the State responds that it is alright to treat the settlement as a contribution does the Board want to limit that to the accrued outstanding contribution from the City and take the rest of it. There is potential for a compromise. Chairperson Huston states that there is an account receivable on their books from the City and if it is offsetting current contributions it would first clear out the receivable. Mr. Stanley informs that is their recommendation. This will be part of next year's valuation.

Mr. Garcia-Linares thinks they should wait to make a decision until they hear a response from the State. If the State comes back and says it is alright to treat the settlement as current revenue and unless the Board wants to reconsider the motion then the decision has already been made. Then Mr. Stanley is going to come back to the Board and inform that there are two ways to treat the money and ask the Board which way they want to treat it. He doesn't think they should continue to make a decision until they hear from the State. Mr. Geraci asks would be the two ways the actuary would recommend. Mr. Stanley informs that they would take the full amount of the settlement and count it as a

City contribution and the other way is to say they are only going to take a portion of that settlement and use it to wipe out the City's contribution receivable and take the remainder and consider it to be investment return. Mr. Goizueta agrees with Mr. Garcia-Linares and thinks they should wait for the State's response before they make a decision. Chairperson Huston discontinues the discussion until the Board hears from the State.

Mr. Greenfield continues his report. He is working with the outside labor attorney for the City in regards to several changes in the ordinance. One of the changes deals with changing the ordinance to comply with an amendment to the State Statute regarding the 175/185 plans. The other change is in regards to the City officials. He has also been working with the consultants regarding a statutory mandate dealing with certain scrutinized investments. A scrutinized investment is one that the State has determined cannot be part of a pension plan. They are in some commingled funds that may have an investment that is a scrutinized investment and they have until January 2010 to bring the plan into compliance.

Mr. Greenfield reports that he has been working with Ms. Groome on the question of the Internal Revenue Service permitting retired police officers to deduct their insurance costs from the Retirement benefit for tax purposes. He has been working with Attorney Bob Klausner to develop language for the rules that Ms. Groome would have to administrate with how the retirees would be able to take advantage of that.

Mr. Naclerio asks if Mr. Greenfield has done anything regarding the Sunshine Law to see if they can get some relief from having a physical quorum present. Mr. Greenfield informs he has not. He spoke with the City Attorney and the Statute is pretty clear. Mr. Naclerio responds that it is an issue regarding the Attorney General's previous interpretation. Mr. Greenfield states that the Statute is clear that you have to have a quorum. The interpretation of the Attorney General is also clear. They have no new facts to bring to the Attorney General's attention. Mr. Naclerio disagrees. Technology has progressed since the Attorney General's opinion. They need qualified people to sit on these Boards and it is not always possible for them to gather in one physical place. The public can contribute through a conference call or go to where the administrator is to participate in the meeting. He thinks they should ask and see if the Attorney General's opinion has changed. Mr. Greenfield informs that he can ask the Attorney General for an opinion without the joiner of the City but with the City's joiner it would certainly mean a lot more to the Attorney General. Mr. Naclerio points out that the City Attorney doesn't seem to want to do that, she wants the Board's attorney to do it.

A motion was made by Mr. Naclerio and seconded by Mr. Garcia-Linares to ask the Board's attorney to request an interpretation from the Attorney General regarding a physical quorum under the Sunshine Law. Motion unanimously approved (7-0).

Mr. Greenfield reports on the issue with the Police 185 Fund. He spoke with Ron Cohen. The position of the Police is clear that there was an agreement between the City Manager and the Police a number of years ago as to how the interest factor should be treated. The City agreed at that time with the Police and the City took care of the interest problem.

The retirement system had approximately $30,000 withheld by the Police for their payment of their minimum benefits last year. The question is will the City handle it the same as it did then and in that case the City will owe the Retirement System approximately $30,000. Mr. Nelson informs that this was a letter written back in October 1998 and it was to the Chairperson of the Police 185 Fund from the then Assistant City Manager, David Brown. The letter stated that the City would fund the money. This was never approved by the City Commission and he does not know how it got done and approved. David Brown signed the requisition for payment. This type of agreement would clearly need the authority of the Commission to expend funds from the City to reimburse the Police Retirement fund for interest. It is the City's position today that this letter from 1998 does not require the City to pay the interest now especially without the authority of the City Commission. Mr. Geraci asks if this Board made a deal with the Police fund. Mr. Nelson answers negatively. It was a deal by the City and not this Board. Mr. Geraci asks why the Board is involved. Mr. Garcia-Linares explains that for over a year the Police fund has owed the Retirement fund over $30,000.00. The response back from the Police was that they had a deal with the City. Chairperson Huston thinks the consensus is that Mr. Greenfield needs to go after the money the Police fund owes the retirement system.

Mr. Greenfield suggests that the Board also bring in the City into the lawsuit. Mr. Garcia-Linares disagrees. If the Police fund really feels that the City owes them money the Police fund will bring the City into the suit. His suggestion is that they sue the Police fund. Mr. Nelson believes that it is clear that the Police fund owes the retirement fund $30,000.00. The Police fund pays a certain amount to the retirement fund for additional benefits. They shorted the retirement fund because they believe that the City and not the retirement system owes them $30,000.00 so they are basically holding this fund hostage to get to the City when the three parties are totally independent of each other in this regard. Mr. Naclerio states that it is the Retirement Board's responsibility to file the State Report on time and that is why the Police fund withheld that money. Mr. Nelson adds that they are claiming it is for interest lost. Ms. Groome informs that it is the Retirement System's responsibility to file the report on time. Mr. Geraci agrees but the retirement system has to get the information from the City so there is a chain of command. Mr. Garcia-Linares thinks that if you look at the past minutes the Board has already given Mr. Greenfield to take action against the Police if necessary. Chairperson Huston informs that they are turning this issue over to Mr. Greenfield. Mr. Greenfield comments that it will be done before the next Board meeting.

5. Report of Administrative Manager.

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 $2,400,000.00 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 June 2009

for the July 2009 benefit payments.

2. For the Board's information, there was a transfer in the amount of $2,000,000.00 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 July 2009 for the August 2009 benefit payments.

3. For the Board's information, there was a deposit in the amount of $5,392,452.00 from the City of Coral Gables to the Coral Gables Retirement Fund's bank account at SunTrust Bank for the City's 4th quarter retirement contribution of 2009. The $5,392,452.00 was transferred to and received by the Northern Trust Cash Account on August 3, 2009.

4. For the Board's information:

   - Gary McWilliams of the Parks and Recreation Department passed away on March 9, 2009. He retired on January 1, 2008 with vested retirement benefits. His beneficiary began receiving his benefit on April 1, 2009 and will receive that benefit until December 1, 2012.
   - Sam Culler of the Parks and Recreation Department passed away on May 31, 2009. He retired on June 1, 1981. His beneficiary passed away in 1985 therefore his benefits have ceased.
   - Ralph K. Lichtenberger of the Police Department passed away on May 8, 2009. He retired on October 1, 1982 with No Option therefore his benefits have ceased.
   - Paul Boller of the Fire Department passed away on July 29, 2009. He retired on October 1, 1989 with No Option therefore his benefits have ceased.
   - Ana Baixauli of the Police Department entered the DROP on July 1, 2001 and left the DROP on June 30, 2009. She received her first retirement benefit on July 1, 2009.
   - Gerard Jean-Baptiste of the Parking Department entered the DROP on July 1, 2002 and left the DROP on July 30, 2009. He received his first retirement benefit on August 1, 2009.

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

   - Payroll ending date June 7, 2009 in the amount of $72,656.15 was submitted for deposit on June 16, 2009.
   - Payroll ending date June 21, 2009 in the amount of $70,066.02 was submitted for deposit on July 9, 2009.
   - Payroll ending date July 5, 2009 in the amount of $73,397.94 was submitted for deposit on July 14, 2009.
   - Payroll ending date July 19, 2009 in the amount of $70,256.50 was

submitted for deposit on July 29, 2009.

6. A copy of the detailed expense spreadsheets for the month of June and July 2009 are attached for the Board's information.

7. A copy of the Summary Earnings Statements from the Northern Trust Securities Lending Division for billing period May 1, 2009 to May 31, 2009 and June 1, 2009 to June 30, 2009 are attached for the Board's information.

8. Attached for the Board's information are the Statements of Pending Transactions and Assets as of May 31, 2009 and June 30, 2009 from JP Morgan.

9. Attached for the Board's information is the Statement of Settled Transactions from May 1, 2009 to May 31, 2009 and June 1, 2009 to June 30, 2009 from JP Morgan.

10. For the Board's information, a copy of the contribution settlement documentation for Raul Pinon received by the City on June 23, 2009 in the amount of $12,137.59 is attached. Mr. Pinon was paid his recalculated monthly benefit pension effective to July 1, 2007 on July 1, 2009.

11. For the Board's information attached is documentation for the UBS Settlement in the amount of $2,550,000.00.

12. A copy of a letter dated June 16, 2009 from Randall Stanley of Stanley Holcombe and Associates to Donald G. Nelson, Finance Director, regarding invoice #3626 in the amount of $3,769.00 to the City of Coral Gables for activity involved with the contributions receivable is attached for the Board's information.

13. A copy of a letter dated June 18, 2009 from Randall Stanley of Stanley Holcombe and associates to McGladrey and Pullen, LLP explaining their independence as actuaries is attached for the Board's information.

14. Attached are copies of JP Morgan's email newsletters for the months of June 2009, July 2009 and for August 3, 2009 for the Board's information.

15. 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.)

<u>Retirement Benefits:</u>

Retirement application of Henry Adderley of the Public Service Department, 26 years, Option 2B-100%, effective August 1, 2009.

RESOLUTION 3111
A RESOLUTION GRANTING NORMAL RETIREMENT BENEFITS
TO
HENRY ADDERLEY

WHEREAS, Henry Adderley has applied for retirement effective August 1, 2009, and,

WHEREAS, Henry Adderley requests to take Option 2B-100% with his last working day July 31, 2009.

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 Henry Adderley retirement benefits under Option 2B-100% as certified by the Actuary, the first day of every month, beginning August 1, 2009 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. Adderley's retirement application was made by Mr. Goizueta and seconded by Mr. Sibley. Motion unanimously approved (7-0).

Retirement application of Anna Garcia of the Police Department, 24 years and 2 months, No Option, effective August 1, 2009.

RESOLUTION 3112
A RESOLUTION GRANTING NORMAL RETIREMENT BENEFITS
TO
ANNA GARCIA

WHEREAS, Anna Garcia has applied for retirement effective August 1, 2009, and,

WHEREAS, Anna Garcia requests to take No Option with her last working day July 31, 2009.

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 Anna Garcia retirement benefits under No Option as certified by the Actuary, the first day of every month, beginning August 1, 2009 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 Ms. Garcia's retirement application was made by Mr. Sibley and seconded by Mr. Goizueta. Motion unanimously approved (7-0).

Retirement application of Mirtha Ruiz of the Police Department, 19 years, No Option, effective August 1, 2009.

RESOLUTION 3113
A RESOLUTION GRANTING NORMAL RETIREMENT BENEFITS
TO
MIRTHA RUIZ

WHEREAS, Mirtha Ruiz has applied for retirement effective August 1, 2009, and,

WHEREAS, Mirtha Ruiz requests to take No Option with her last working day July 31, 2009.

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 Mirtha Ruiz retirement benefits under No Option as certified by the Actuary, the first day of every month, beginning August 1, 2009 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 Ms. Ruiz's retirement application was made by Mr. Goizueta and seconded by Mr. Easley. Motion unanimously approved (7-0).

DROP Benefits:

DROP application of Clayton Carter of the Police Department. Effective date September 1, 2009.

A motion to approve Mr. Carter's application for the DROP (Deferred Retirement Option Plan) was made by Mr. Goizueta and seconded by Mr. Easley. Motion unanimously approved (7-0).

DROP application of Faye Thompson of the Police Department. Effective date September 1, 2009.

A motion to approve Ms. Thompson's application for the DROP (Deferred Retirement Option Plan) was made by Mr. Goizueta and seconded by Mr. Sibley. Motion unanimously approved (7-0).

DROP application of Gianna Pedron of the Police Department. Effective date November 1, 2009.

A motion to approve Ms. Pedron's application for the DROP (Deferred Retirement Option Plan) was made by Mr. Goizueta and seconded by Mr. Easley. Motion unanimously approved (7-0).

<u>Vested Rights Benefits:</u>

Eugene Gibbons, Police Department (13 years, 3 months), effective at age 50, effective date July 1, 2020.

A motion was made by Mr. Goizueta and seconded by Mr. Sibley to approve Mr. Gibbons' vested retirement application. Motion unanimously approved (7-0).

7. Submission of bills for approval. (Administrative Manager recommends approval of the following invoices).

- The Bogdahn Group invoice #4082 dated June 19, 2009 for 2nd Quarter Performance Evaluation and Consulting Services in the amount of $33,750.00. This invoice is in accordance with the contract between The Bogdahn Group and Coral Gables Retirement System signed on June 1, 2008.

A motion was made to approve The Bogdahn Group invoice in the amount of $33,750.00 by Mr. Goizueta and seconded by Mr. Easley. Motion unanimously approved (7-0).

- Stanley Holcombe & Associates invoice #3631 dated July 10, 2009 in the amount of $19,943.00 for actuarial consulting services from May 30, 2009 through July 6, 2009 and invoice #3733 in the amount of $18,119.00 for actuarial consulting services from July 7, 2009 through August 2, 2009 for a total of $38,062.00. These invoices are in accordance with the contract between Stanley, Holcombe & Associates and Coral Gables Retirement System signed on December 17, 2008.

A motion was made to approve the Stanley Holcombe & Associates invoices totaling $38,062.00 by Mr. Goizueta and seconded by Mr. Naclerio. Motion unanimously approved (7-0).

8. Approval of the 2008 State Annual Report which was mailed via USPS Express Mail to the State of Florida on August 6, 2009.

A motion was made by Mr. Garcia-Linares and seconded by Mr. Sibley to approve the 2008 Annual Report for the State of Florida. Motion unanimously approved (7-0).

9. Attendance of John Baublitz, President of the Coral Gables FOP Lodge #7, requesting the use of the Board's actuary, Stanley Holcombe and Associates.

John Baublitz informs that he is before the Board to request the use of Stanley Holcombe and Associates to calculate some numbers for the FOP for their negotiations with the City. Mr. Sibley comments that by using the Board's actuary it will save time and money. Mr. Stanley already has the data to do the calculations. Mr. Naclerio asks if the City has any objections. Mr. Nelson answers negatively. Chairperson Huston remembers that the Board approved the use of their actuary before regarding the cost of living adjustment which caused a problem for the Commission because they acted on the wrong facts. Is there any possibility of something like that repeating? Mr. Baublitz responds that from an FOP standpoint it will not. They are working hard to get an agreement with the City and he believes that the information they will receive from the actuary will benefit both sides. Mr. Stanley informs that they did work for negotiations between the Fire Union and the City and it was a last minute impact statement request. He misinterpreted the impact and said there was no impact and somehow the newspapers got hold of the fact in a conversation with Gene Gibbons and Ron Cohen that there were elements of that negotiation that did have a cost impact. He went dashing back to the Commission and asked them to not have a second reading on it.

A motion was made by Mr. Sibley and seconded by Mr. Goizueta to approve the request from the FOP Lodge #7 allowing the use of the Board's actuary. Motion unanimously approved (7-0).

10. Attendance of Randall Stanley of Stanley, Holcombe and Associates to present the 2008 Actuarial Valuation Report.

Randall Stanley and Jonathan Craven of Stanley Holcombe and Associates present the 2008 Actuarial Valuation Report. Mr. Stanley reports that this valuation is as of September 30, 2008. Mr. Craven informs that they collect the participant data from Ms. Groome on the actives and inactives in the plan. As of 10/1/08 there were 781 actives with an average age of 42, average service of 11.1 years and an average salary of $68,500.00. Mr. Stanley states that all of them knew that the investment experience was going to bring bad news for the year ending 9/30/08. The surprise in this report is that the pay increase from $61,000 to $68,000 average is a great deal more of an increase than their assumption. When you give raises that are really nice it comes back and it is bad news for the system. It is a reversal of the experience between 2006 and 2007. Mr. Goizueta asks if this includes all City employees. Mr. Craven answers affirmatively. It does not include any employee in the DROP.

Mr. Craven informs that the other data they collect is asset data. They haven't had a client that had a good year between 10/1/07 and 9/30/08. The plan's market return was -

15.7%. They assume that it is going to be a positive 7.75%. They do smooth the asset returns and on an actuarial basis they had a gain of 3.4% which is still less than half of the assumption and is still a loss. Last year the actuarial value was 96.5% of market value which means you had a 3.5% cushion between market and actuarial. This year actuarial is 118% of market so you are using a lot of assets that aren't there for valuation purposes. The State limits that to 120% so you are almost hitting the corridor where the smoothing will not help. The State will not allow them to use over 120% even if their smoothing method says to. You lost your cushion and now you are using borrowed assets waiting for the smoothing method and the market value to catch up. Mr. Stanley explains that the whole purpose of smoothing is to not go down as much in bad markets and not to go up as fast in good markets. The overriding rule in Florida is that you can't be less than 80% of market or greater than 120% in market. Mr. Craven states that they have a five year chunk of losses from last year that you are spreading out over five years so that is going to be a drag for the next four years.

Mr. Craven continues. The entry age accrued liability marches pretty steadily upward but the value of assets has not kept pace with it. Back in January 2001 the fund was 100% funded based on the actuarial value of assets and now on an actuarial value they are 60% funded and on a market value they are 52% funded. The assets have not kept up with the liabilities over the last decade. Mr. Stanley states that this is not the kind of snapshot they like. They think it is weak and that whatever advice the Board is going to get from them today going forward has to reflect that the system is weakly funded and 95% of their responsibility to the Board and the members to is try and help them get that percentage up to healthy level without overreacting to the market declines on 9/30/08. He considers healthy at 80% funded. Mr. Craven adds that one of the reasons they are down is because of the 30 year amortization. These losses they are taking on this year they aren't going to finish paying them for another 30 years. The assets are going to be put in over 30 years instead of a short period so this ratio is going to lag behind because it is waiting for the assets to come in.

Mr. Craven states that $502.5 million is the present value of both past and future expected benefits for the current group. It does not assume any future hires. If they had $503 million in the trust there would be no need for any future contributions. Theoretically if all their assumptions come out perfectly they will have enough money to pay that last person that last pension check before they die. The amount of $434 million of the $503 million is due to past service. That is the number they plot against the assets. That is what you have accrued to date and your assets are what you accrued to pay for it and so the unfunded accrued liability has to be paid off. They do that through amortization like a 30 year house payment. When you accrue a new piece it takes 30 years to pay off. Chairperson Huston asks why they pick 30 years. Mr. Craven responds that it is the method the prior actuary used. Most of their other clients use shorter year duration but 30 years is the maximum allowed. Mr. Stanley informs that if they decide to go to a shorter year duration it would increase the City's contribution. He has recently become a fan of longer amortization because it is not as volatile. When you amortize over 30 years you don't get that volatility with that hit good or bad that you get if you were spreading it over 10 to 15 years.

Mr. Craven states that the actuarial value of assets is $265 million and if you subtract that from the entry age accrued liability you have an unfunded liability of $168.5 million. That is what has to be paid off. The contribution is two pieces. The normal cost is what you are accruing this year to keep current with all the active accruals this year but the amortization to pay off that $168.5 million. The normal cost is $8.8 million so that will pay for everybody's accrual for working from 10/1/08 to 9/30/09. They also have assumed administrative expenses for gross normal costs of $9.9 million. If they had no unfunded liability that would be their contribution but since they do $14.6 million is the amortization payment to pay off that $168 million. Mr. Stanley states that looking at the normal cost it is less than 20% of payroll. If you take out of that the portion the employee would pay then you have a quantification of what they are saying the current system costs now and that is the expense for doing business in sponsoring this plan. Mr. Craven explains that they have a one year lag so they added a year of interest to the normal costs of the amortization and come up with a total contribution rate requirement as of 10/1/09 of $26.4 million. Then they expect the chapter monies from the State to come in at $52,000 from the Fire and $93,500 from the Police which reduces the contribution to $26.4 million. Then they expect $1.96 million from the fire and general employees' contribution for a net City contribution as of the October 1, 2009 for the total $24.3 million.

Mr. Craven shows how they reconcile last year's costs to this year's costs. It was a bad year. The largest source of loss was the salary increases. Overall the data they used the salary increases were 16.8% last year and their assumption was 4.9%. That created a big loss and it increased the annual contribution by $1.6 million. Mr. Goizueta asks if they know which area the salaries were increased at. Mr. Craven responds that they got 21% for Police officers, firefighters were at 14.6% and general employees' were at 15.4%. Mr. Stanley thinks a lot of those increases would be overtime. Mr. Craven states that another big source of loss is the investment return. That increased the contribution by $980,000. They smooth that so it is going to be a drag for a few more years. Those were the biggest sources of increase.

Mr. Naclerio states that for purpose of the record the Board understands that the City has this payroll situation under the microscope and is doing everything it can to reduce the payroll for not just pension purposes but for general purposes. Mr. Salerno informs that they are taking strong measures in the collective bargaining to adjust those salary increases.

A motion was made by Mr. Garcia-Linares and seconded by Mr. Goizueta to accept the 2008 Actuarial Report.

Mr. Goizueta asks if there is a way to breakdown the numbers for the general employees and the excluded employees. Mr. Craven responds that they don't have that broken down in their data. Ms. Groome can supply that data. Mr. Goizueta asks for a copy of that information.

Motion unanimously approved (7-0).

11. Discussion, review and approval of the Request for Proposal for Independent Auditor of the Coral Gables Retirement System.

A motion was made by Mr. Garcia-Linares and seconded by Mr. Sibley approving the Request for Proposal for Independent Auditor document.

Mr. Garcia-Linares asks if Mr. Nelson was fine with the draft of the request for proposal. Mr. Nelson answers affirmatively.

Motion unanimously approved (7-0).

12. Investment Issues.

Dave West reports that the fund approached the $200 million handle in the investments and as of July 31st the asset value was $206,037,793, with the update that Ms. Groome provided there was a contribution that came in at $5.9 million so the fund is up to $211,203,613 as of August 11, 2009. They are on their targets with the rebound in equities, subsequent to the decline in real estate. They do not need to rebalance. They only need to make a determination as to how the contribution should be invested.

Mr. Goizueta asks where the fund is regarding JP Morgan. Troy Brown explains that they still have $2.5 million in the exit queue with JP Morgan. Their feeling is to leave that money in the queue. The exit queue at JP Morgan stands at about $2.3 billion and JP Morgan paid out $80 million this quarter. The fund received their distribution. They want to use that money when it does become available to look at the JP Morgan infrastructure asset class which took a backseat to what was going on. They know the people at JP Morgan and know that they are qualified to manage the infrastructure asset class. He feels comfortable in recommending a manager that the Board feels comfortable with and that is going to be the target, to put that money into the JP Morgan infrastructure asset class. Mr. Brown informs that he checked with JP Morgan and they cannot transfer the shares they have in the exit queue of the strategic fund to get into infrastructure fund.

Mr. West reviews the second quarter performance. They opened the quarter with $178 million. Contributions to the fund totaled $5.4 million and distributions were $3.2 million. The fees were $355,000 and expenses, which are non-manager fees, were $235,000. The investment return was $17.8 million and that put the fund at $197.9 million. Mr. Brown informs that there was a gain in July of about $9.8 million which puts their loss for the fiscal year at $14 million or 5% with two months to go. Mr. West reports that the total fund return for the quarter was 10.03%. They are hoping for a nice fiscal year close.

Chairperson Huston asks if they recommend any changes in managers at this point. Mr. West responds that the only change they need to address is the investment of the contribution. They typically want to leave about $1.5 million in the cash. Their recommendation is to invest the proceeds which is about $3 million. They are not recommending making any changes to the current allocation and that will keep them on the policy targets. Mr. Brown adds that TIPS is overweight because at the last meeting the Board recommended to invest the UBS settlement into that asset class and that asset class will not be added to. The $3 million they are going to invest doesn't represent a huge percentage of a $200 million portfolio so it will go to equities.

A motion was made by Mr. Goizueta and seconded by Mr. Sibley accept the recommendation of the consultants. Motion unanimously approved (7-0).

13. Old Business.
There was no old business.

14. New Business.
There was no new business.

Set next meeting date for Thursday, September 10, 2009 at 8:00 a.m. in the Youth Center Auditorium.

Meeting adjourned at 10:36 a.m.

APPROVED

TOM HUSTON, JR.
CHAIRPERSON

ATTEST:

KIMBERLY V. GROOME
RETIREMENT SYSTEM ADMINISTRATOR