

# CORAL GABLES RETIREMENT SYSTEM

Minutes of June 12, 2014

Youth Center Theater/Auditorium

405 University Drive

8:00 a.m.

MEMBERS:	A	S	O	N	J	F	M	A-10	A-18	M	J	APPOINTED BY:
	13	13	13	13	14	14	14	14	14	14	14	
Andy Gomez	P	P	P	P	P	P	E	E	P	P	P	Mayor Jim Cason
Manuel A. Garcia-Linares	P	P	P	P	P	P	P	P	E	P	P	Vice Mayor William H. Kerdyk, Jr.
Bob Campbell	E	P	P	E	P	E	P	E	E	E	E	Commissioner Patricia Keon
Jon G. Ridley	-	P	P	E	P	P	P	P	P	P	P	Commissioner Vince Lago
James Gueits	P	P	P	P	P	P	P	P	P	P	P	Commissioner Frank C. Quesada
Joshua Nunez	-	-	P	E	P	E	E	P	P	P	P	Police Representative
Randy Hoff	P	P	P	P	P	P	P	P	P	P	P	Member at Large
Donald R. Hill	P	P	P	P	P	P	P	P	P	P	P	General Employees
Troy Easley	P	P	P	P	P	P	P	P	P	P	P	Fire Representative
Diana Gomez	-	-	-	P	P	P	P	P	P	P	P	Finance Director
Elsa Jaramillo-Velez	-	-	-	P	P	P	P	P	P	P	P	Human Resources Director
Keith Kleiman	-	-	-	-	-	-	-	-	-	-	P	City Manager Appointee
Pete Chircut	-	-	-	-	-	-	-	-	-	-	P	City Manager Appointee

## STAFF:

Kimberly Groome, Retirement System Administrator  
 Alan E. Greenfield, Board Attorney  
 Dave West, The Bogdahn Group  
 Jim Rizzo, Gabriel Roeder Smith Actuaries

P = Present  
 E = Excused  
 A = Absent

## GUESTS:

Craig Leen, City Attorney  
 Ron Cohen, Rice Pugatch Robinson & Schiller, P.A.  
 Jim Linn, Lewis, Longman & Walker, P.A.  
 Mike Tierney, Actuarial Concepts

Vice-Chairperson Randy Hoff calls the meeting to order at 8:10 a.m. There was a quorum present. Chairperson Gueits, Ms. Gomez and Ms. Jaramillo-Velez were not present at the start of the meeting. Mr. Campbell was excused. Dr. Gomez joined the discussion via conference call. This was done based on the Attorney General's opinion in 2002-82 December 11, 2002 which says in the absence to the contrary the requisite number of members must be physically present at a meeting in order to constitute a quorum. In other words a board member may participate by electronic means but in all circumstances a quorum of the board must be physically present at the meeting.

1. Roll call.
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 April 18, 2014 Retirement Board Special meeting minutes.
- 2B. The Administrative Manager recommends approval of the May 8, 2014 Retirement Board meeting minutes.
- 2C. The Administrative Manager recommends approval of the Report of the Administrative Manager.
- 2D. The Administrative Manager recommends approval of the following applications: William Barrow (DROP), Robert Brown (DROP), Jane Campos (Retirement), Jorge Delgado (DROP), Jose Flores (DROP), Scott Masington (DROP), Gerald O'Leary (DROP), Rene Tastet (DROP), Dean Wellinghoff (DROP).
- 2E. The Administrative Manager recommends approval for the following invoices:
  1. GRS invoice #407291 dated May 12, 2014 for actuarial consulting services rendered during the month of April 2014 in the amount of \$10,110.00.
  2. Goldstein Schechter Koch invoice #20402413 for the final billing on audit services year ending September 30, 2013 in the amount of \$2,200.00.
  3. The Bogdahn Group invoice no. 10405 dated June 13, 2014 for Performance Evaluation and Consulting Services from April 1, 2014 to June 30, 2014 in the amount of \$36,250.00. This invoice is in accordance with the contract between The Bogdahn Group and Coral Gables Retirement System signed on June 1, 2008 and in accordance with the fee increase approved by the Board and signed by the Chairperson on April 28, 2011.

**A motion was made by Mr. Garcia-Linares and seconded by Mr. Hill to approve the consent agenda. Motion unanimously approved (10-0).**

3. Items from the Board attorney.

Alan Greenfield reports that they have had a fairly active month. There are no lawsuits filed against the Board. The Board is a party to the lawsuit filed on behalf of the Board

and the City against Nyhart. Mr. Linn advised that the complaint was filed but the summons had not been issued and the summons will be issued and served so there is no activity in that lawsuit. They have had a couple of QDRO's hanging around. They had a special Board meeting after the May meeting that was called for the purpose of discussing the status of the Administrative Manager and the necessity for an assistant for the Administrative Manager. At the Board's direction he prepared a letter to the Interim City Manager and that letter was circulated to the Board members. They are looking for the Chairperson to sign the letter and then they will deliver it to the City. Regarding the ongoing COLA litigation there was a motion to dismiss filed by the City which was denied so that litigation is going to go forward. Obviously the impact of that decision certainly would have impact on the Board and the participants who are entitled to the COLA benefits. That is basically what has transpired during the month. He has nothing else to report to the Board.

Ms. Gomez arrives at the meeting at this time.

4. Attendance of Pete Strong and Melissa Algayer of Gabriel Roeder Smith Actuaries following-up on their presentation of the 2013 Actuarial Valuation Report. The Administrative Manager recommends approval of the report.

Pete Strong and Melissa Algayer were unable to attend the meeting. Jim Rizzo from GRS made the presentation. Mr. Rizzo informs that at the last meeting Mr. Strong presented the actuarial report. As he understands there were two revisions they made to the valuation report that the Board requested. They issued the revised report. The two changes were a change in the calculation method for getting the costs when they are determined as of the valuation date and getting them over to the date they are expected to be paid. There are a number of ways the adjustment can be made. There are various methods acceptable for moving the contribution rate from a beginning valuation date to the dates they are actually expected to be paid. The different method they used that the Board requested was incorporated into the revised actuarial report and that had a reducing effect on the contribution requirement. The second change that was made is previously for budgeting purposes, the liabilities are pooled, it appears that all assets of the pool are available to pay benefits of any member and there is an allocation of assets to the pool for budgeted purposes the assets are allocated between the members. When the assets are allocated among the members, because this is one pool one cannot say that these are our assets because legally all the assets are available to pay any member. For budgeting purposes to pay the contribution requirement that is attributable to General Employees or Police Officers it is necessary to do an allocation of the assets for that purpose. There was a change made in that methodology. The Board requested they revise that allocation so the methodology they use would be the same methodology that has been used in the past. They did not have a problem with that so it was revised and they recalculated the respective contribution requirements under the new allocation of assets. Those are the only two changes they were instructed to make in the revised report.

Chairperson Gueits and Ms. Jaramillo-Velez arrive at the meeting at this time.

Mr. Garcia-Linares asks if there was a meeting regarding the COLA between GRS, the City and Mr. Cohen. Mr. Rizzo responds that there was no advance recognition of the COLA in the initial report or the revised report. Basically they are waiting for the Board's direction. Their position is that if it is a legal provision then it should be prefunded.

Craig Leen, City Attorney, informs that he spoke with Mr. Cohen and they were not able to come to an agreement. They talked about potentially pushing it off but the City was concerned about pushing off the valuation. Mr. Cohen wanted to do that. The City was concerned about that because typically he is informed that they need this information in the report by July 1<sup>st</sup>. It is important for budgeting and to make sure they qualify for the best tax treatment they can by State law.

Ron Cohen, Rice Pugatch Robinson & Schiller, informs that there was never any substantive discussion. He suggested that they put off approval of the report until the next meeting but Mr. Leen didn't think that was a good idea. He wanted to put it off to see if everybody could get together with the actuaries and that discussion never happened. Mr. Leen explains the City's view is ultimately it would be unlawful for the Board or for the actuary to prefund this without City Commission approval because it involves a discretionary fund decision. That is the decision they took to the City Commission previously when this matter came before them and they issued an order to the Retirement Board to not fund the COLA after their decision to fund the COLA. He gave the City Attorney interpretation on the same subject and they have a lawsuit where that is the position of the City in that case. Obviously in the lawsuit, Mr. Cohen takes the opposite position. They do have a pending lawsuit and the Board has previously decided the stay the matter until the lawsuit is over. Mr. Cohen is asking the Board to reconsider it and he doesn't think the Board can reconsider it because ultimately it is a legal decision and the only person who has the authority to change things that occurred is the judge. The City is going to be vigorously arguing that the judge should not do that and they think that should ultimately be left to the court. They are happy to mediate this matter. He thinks it is something potentially that can be resolved and that may be in the best interest of everyone. At this point they have different views as to how that would be resolved. He is willing to offer going into mediation in the case. The City would not agree to the COLA being prefunded.

Mr. Cohen informs that he is not asking for the matter to be reconsidered. The Board decided that a little over a year ago that the COLA for the year ending September 30, 2012 should be paid and that the ordinance provides for the payment of that COLA as long as the provisions were met. The City Commission reversed that decision after the Board voted that it should be paid. Then the Board decided not to make a decision for the COLA for the year ending September 30, 2013. Now there is a different issue before the Board. At some point it cannot be avoided. It is unfortunate given the Board's previous position but the Board is being asked to approve an actuarial valuation that doesn't have funding in it for COLA benefits that the Board decided to be paid. He doesn't understand any sort of logic that they should not fund the benefits that they decided to be paid. They have no more right not to fund the benefit than they would to

say not fund a disability benefit. It is not discretionary on the City. The Board is the authority to adopt the actuarial valuation. If they adopt an actuarial valuation that does not fund a benefit they believe needs to be paid they will transfer the obligation of this benefit to future generations of tax payers. That is what has been happening here. Probably the previous actuary should have had it funded and that is what their current actuary is saying that it should be prefunded and then they can grant the COLA regardless. The City is saying they don't want to pay this benefit because it is being transferred to future generations of tax payers but the point is they are asking the Board to transfer to future generations of tax payers by not having the COLA prefunded. The actuary is saying it should be prefunded and that it was a mistake to not prefund it initially. The Board has an obligation to fund the benefit that was promised to the people. That is the most important obligation they have as trustees is to make sure there is money there to pay the benefits. The fact that the City doesn't want to pay it and they would rather use the money for something else doesn't matter. The law says that the City is ultimately responsible for keeping the plan actuarially sound. He thinks they have no choice but to fund it.

Mr. Leen doesn't think it is different this time. The reason why is the pension code has a provision that says if a mistake is made and just assume that a mistake was made many years ago when this was put into the code because it was not funded at that time, the code says if there was a mistake then that money doesn't come out of general revenues or the City's funds everything is limited to the pension. There is a statute that says you can't fund this type of benefit out of actuarial experience. They went to the State Division of Retirement and the State agreed with the City. There are only two funding sources. The funding comes out of the pension fund which it can't or it comes out of City funds which is prohibited by the pension code. They have a pending lawsuit. He is offering to sit down with Mr. Cohen and mediate this matter and come to a resolution but in the end the only way this benefit will ever legally get paid from any part is if a judge orders the City to do it or if they reach some sort of negotiated settlement. Those are the only two ways, either by City Commission approval or court order. They do not think it is appropriate for the Board to prefund it.

Mr. Garcia-Linares asks what the mistake was. Mr. Leen explains that the mistake was to have a provision that provides a contingent benefit and not to prefund it at that time and there is a State law says you cannot fund it out of actuarial experience which is what would happen if they did fund it. Even if they did call it prefunded it is not prefunding. Prefunding would have been many years ago. What they would be doing is having a contingent benefit that was adopted many years ago being funded many years after. That is not prefunding. That is transferring to future taxpayers at that time the duty to pay for the benefit and it is requiring the City Commission to fund the benefit which is a discretionary act of the sovereign.

Mr. Hoff asks Mr. Rizzo if the increase they are talking is additional funding and has nothing to do with prior funding of the COLA because that is already in the unfunded liability. He understands that they are talking about the funding of future potential COLAs. Mr. Rizzo agrees. Mr. Leen states that it would have been funded over the

course of the last 20 years. That is the issue. If there had been an impact statement and a prefunding you would have been funding this for the past 20 years and they would have money available to pay a COLA. You are essentially requiring an additional benefit be added today without an impact statement and without approval of the Commission.

Mr. Garcia-Linares informs that his concern is that the Board had a fiduciary duty and there is a potential that they may have to fund the COLA. They don't know what the Court is going to do. If they approve the valuation report and the City only funds the amount in the report what happens if the judge says the Board should have funded the COLA? Mr. Leen answers that their view is they don't think the judge will say that. Mr. Garcia-Linares asks for Mr. Leen to assume it will happen. Mr. Leen thinks it would depend on how the judge issues the order. The City is taking two positions. One is that the COLA cannot be funded out of actuarial experience so in their view the money could not have been taken out of the pension fund because it hasn't been prefunded and there is no impact statement. Second there is a code provision that it cannot come out of City revenues. Mr. Garcia-Linares states that those are the only two choices. Mr. Leen explains that their view is the Court would have to address one of those two provisions and essentially not enforce it. They don't think the City or the pension board has that authority. The City in their discretionary capacity can fund it and that is why he is offering mediation but they don't think it is lawful to prefund it and it would interfere with the position they are taking in their lawsuit.

Dr. Gomez thinks the problem is that they are not far from where they were a month ago. He understands the positions of the City and Mr. Cohen. He thinks they should allow both parties to go into mediation and then come back to the Board at the August meeting with some idea as to where they should be. He is not ready to make a decision on which way to go. He is a little troubled that they are unclear as to where they should be since very little has changed since they met the last time. He is not going to be ready to make a final decision and thinks it would be very irresponsible to do so. Mr. Hill thinks that they should just forget about the COLA from two years ago. In two or three years the fund will hit its next target for the COLA and the next COLA will be due. They need to start funding future COLAs now. That is what the ordinance calls for, that they fund future COLAs now. Mr. Leen comments that the issue is where are they funding the COLA from. They have a report stating that there is \$358 million in actuarial loss to the pension. The City's view is that they are legally prohibited from funding that from the current pension fund so the only way they can fund it is to compel the City Commission to fund it out of general revenues. That is illegal in their view. They continue to maintain that position. The Commission does have discretionary authority but it is going to take more than a month to mediate this type of matter because of the substantial amount of funds at stake. Ultimately they may not be able to reach an agreement but they are willing to offer and do it in good faith.

Mr. Garcia-Linares asks why they can't put this report off and make a decision on it until they can mediate. Mr. Leen responds that they can put off the issue of the COLA but they would like to have the valuation report approved by July 1<sup>st</sup>. He is worried that it will cause some consequences to the pension if it is not approved by then.

Jim Linn of Lewis, Longman & Walker, P.A. explains that the plan requires that the valuation be completed every year. The language in the code says it is to be done 90 days after the end of the reporting period. It is important for the City's budget process beginning now to know the City's obligation will be beginning October 1<sup>st</sup>. That is the purpose for the valuation. Mr. Garcia-Linares understands. Couldn't the Board recommend a number for the City to budget? Mr. Linn responds that they can recommend whatever they wish by law but the number of the City's required contribution is set by the valuation. The law says that is how the City's required contribution is established. Mr. Garcia-Linares states that they have a report in front of them that gives a number. Mr. Linn agrees. Ms. Gomez states that a number can be recommended for the City to pay but the City is only required to fund the amount set in the valuation.

Mr. Linn explains that the second reason Mr. Leen alluded to is that the Board needs to approve the valuation because the valuation needs to be submitted to the State before the State will release the premium tax revenues which go to the police and fire share plans. The distribution of those moneys usually occurs in August. Normally the State wants to see the report filed before July 1<sup>st</sup>. Mr. Cohen doesn't think it is correct that you have to have an actuarial valuation to receive your premium tax revenues. An actuarial valuation by State Law needs to be done a minimum of once every three years. You do have to do an audit for the State Annual Report every year but he is not aware of any State law requirements that you won't get Chapter money until you approve the actuarial valuation. Mr. Garcia-Linares asks Mr. Greenfield if they have to approve the valuation report by July 1<sup>st</sup> for purposes of the State moneys. Mr. Greenfield answers that for purposes of the State moneys they do not have to. Mr. Cohen informs that is his view of it. For purposes of confirmation they can talk to the State and get confirmation. He will discuss with his clients the idea of mediation. At some point they will have to mediate and he is not against mediation. It was said that you can't fund out of actuarial experience and that is exactly right. You can't fund out of actuarial expenses but that doesn't mean you can't pay based on contributions that are made to the plan. The idea that the City doesn't have to put in money for benefits that have been promised are foreign to him. They fund for all the other benefits and the actuarial valuation tells you how much to fund the plan to make it actuarially sound. Then they have an obligation to put it in. Then they heard it is an additional benefit where you need an impact statement. In the actuarial report you can see where a COLA has been paid numerous times in the past and tax payers are paying for it every year. It is time to fund this benefit. The annual required contribution is the minimum. There is nothing that prohibits putting money in early. That is what good cities do. There are a lot of cities around the country that do that. This plan needs money because there is a good chance that the benefit will be paid.

Mr. Easley's concern is the same as what Mr. Hill said. What if in a couple of years the cumulative gain takes affect versus the cumulative loss? How will they fund that? Eventually they will have to pay a COLA when they have a cumulative gain. Mr. Linn explains that it is a benefit in the plan that is contingent on having cumulative actuarial gain which they do not have now. The Statute says that if you have cumulative actuarial gain an additional benefit can be funded out of that cumulative gain. Chapters 175 and

185 state that in order for a municipality to participate in distribution of premium tax moneys under this chapter all the provisions shall be complied with annually including State acceptance pursuant to Chapter 112. State acceptance means the acceptance of the actuarial valuation. State Law says you have to do an actuarial valuation once every three years however Section 50-125 of the City Code says in no event shall an actuarial report be prepared less often than once a year. If you put all those things together you can't put off the actuarial valuation. Mr. Greenfield believes that as long as there is litigation and if the result of the litigation would have an impact upon the decision the Board is going to make that the Board should defer the issue of whether it should now fund for the future something that had not been done in the past. He thinks the Board should defer that issue until the litigation has ended. That means that this year the actuarial report would not have the actuary calculate the amount that a COLA would be prefunded for this year. They have not done it for the past years. It should be corrected. Whether it needs to be corrected now versus next year he doesn't believe there is any material harm to anyone to wait until the Court decision. His suggestion is that the Board defer the COLA issue until the litigation is completed. If the litigation is not completed in a timely fashion then he thinks the Board should look at it again. He doesn't think anything that the Board would do today would have any affect upon the litigants. He knows this Board wants to fund the COLA and it is no doubt the COLA should have been funded at the beginning. It should be in the actuarial report but whether it should be in there today versus next year that is up to the Board.

Mr. Hoff states that sometime over the next month or year the Court is going to give a ruling one way or another. The bottom line is the Board has a fiduciary responsibility to the fund. The actuary is saying that they don't know whatever happened in the past but if they were doing it they would have prefunded it. The Board has an obligation and has decided a year ago that the COLA should be funded and now they have an obligation to the fund to recognize the future obligation until such a time that a judge says you can't pay it or they must pay it. If there is not some sort of recognition of the COLA that they are going to be obligated to pay to the future generations in this report he can't approve it. Dr. Gomez agrees that they have a fiduciary responsibility but he also thinks they have a responsibility to the citizens of the City.

**A motion was made by Dr. Gomez and seconded by Ms. Gomez that the Board follow the recommendation of the Board Attorney to put the final decision on the COLA until the litigation is completed and approve the 2014 Actuarial Valuation Report.**

**Discussion:**

Mr. Garcia-Linares thinks that the recommendation of the Board Attorney was that they should not take any action. Mr. Greenfield informs that he recommended to not take any action regarding the COLA. Under 175 and 185 they have an obligation to follow their ordinance and present the Actuarial Report. It could affect getting the tax premium moneys from the State.



Mr. Rizzo comments on the conversation a moment ago. It seemed to be moving in a direction that felt like that even if you had cumulative gains and circumstances were triggered for a COLA to pay out of gains there is a common temptation that those benefits can be financed through actuarial gains and the City doesn't have to come up with any money. At the end of the day, the City and the taxpayers have to fund everything that doesn't come from employees, State moneys or investments. That is the heart of a lot of problems of these gain sharing ordinances where you feel it is found money to pay benefits. If you are thinking you are going to earn 7.75% overall over a long period of time if every time you have a great return you carve it off and spend it instead of using it for the core benefits you can't be thinking you will earn 7.75% any more. You are going to earn 7.5% or 7% or something lower. You need the good returns to offset the bad returns so you can average 7.75%. It is just a conversational warning that they should not be thinking that this is found money because at the end of the day the City and the tax payers pay everything. If this is resolved in a year in a way that includes prefunding they will start doing it then.

Dr. Gomez asks if they have to approve the actuary report. Mr. Greenfield believes they have to approve the report. It should be clear on the record that the action the Board is taking is to comply with the timely filed report to the State and it is not meant as an endorsement to either parties position in the litigation. Mr. Cohen thinks they should have either he or Mr. Greenfield contact the State to see if whether or not the report has to be approved in order for the State to release the tax moneys. If you get an answer then you can amend the report and there would be more money in the fund. The Board's position is the COLA needs to be paid and the Board's actuary says the COLA needs to be paid. To approve the valuation report without funding it is, he believes, a breach of fiduciary responsibility.

Chairperson Gueits thinks that Mr. Cohen's points are well taken. Mr. Leen states that with respect to the Chairperson, the position taken there is untenable. The whole basis of the lawsuit is enforcing the City ordinance. The City has a different interpretation of the ordinance but to tell the Board to disregard the City ordinance is wrong. Mr. Cohen responds that he did not say that. They have all read the City ordinance and made a decision on what it said. Chairperson Gueits states that they have had discussion and asks if there are any other comments on the motion.

The Chairperson restated the motion. The motion they are taking today is not to be interpreted as having anything on the decision to fund or not fund the COLA or taking a position on the respective issues on the parties of the lawsuit and the Board is simply doing this to comply with the State statute.

**A motion was made by Dr. Gomez and seconded by Ms. Gomez that the Board follow the recommendation of the Board Attorney to put the final decision on the COLA until the litigation is completed and approve the 2014 Actuarial Valuation Report. Motion unanimously approved (12-0).**

Mr. Garcia-Linares asks if the recommendation of the City is to fund the \$23.4 million this year to the retirement system instead of the \$25.5 million from last year. Ms. Gomez responds that the City will fund \$23.349 million.

**A motion was made by Mr. Garcia-Linares and seconded by Mr. Hoff that the City fund at least \$25 million this year as they did last year.**

**Discussion:**

Ms. Gomez states that the City is funding an additional \$1.3 million to bring the Teamster rate down to 15% instead of the 25% as indicated in the actuary report. The City is funding on top of the \$23.3 million an extra \$1.3 million. The City is almost paying \$25 million.

Mr. Garcia-Linares informs that they have not taken advantage of prior years when they had gains and have funded less in those years. Now they have had some gains. This plan is significantly underfunded in his opinion and he would like to see the City fund every year at least \$25 million so they can get to a better position. Their accountants have told them every year that they are the worst of the plans they service and their actuary has told them the same thing. He thinks it is time they really start funding this plan. Mr. Hoff agrees with Mr. Garcia-Linares. Mr. Garcia-Linares thinks this is a serious issue. They have been talking about it for a long time now. Ms. Gomez informs that the City will be funding \$24.9 million this year. Dr. Gomez thinks that what Mr. Garcia-Linares is trying to do is send a clear message to everyone. Mr. Garcia-Linares recommends that the City fund at least \$25 million every year. Ms. Gomez thinks that the motion should be changed to say that the City should consider funding additional money but not necessarily a specific amount. She understands the point of funding an additional amount. Chairperson Gueits states that \$25 million is like a benchmark amount. Mr. Garcia-Linares states that they are sending a message for the future. Mr. Rizzo comments that there are other ways to encourage higher contributions to the fund. Right now they have 30 year amortizations on everything. As a fiduciary decision of the Board they have some latitude as far as the funding policy and how quickly they can finance the benefits. If they were to shorten the amortization periods they could automatically get it higher and then that is what they would be putting in their report. It is a policy decision. It is not something to do today but it is a serious discussion they need to put on a calendar to have a funding policy. It is a good dialogue to have about what type of benefit security as a Board do they want to bring into this plan and how quickly they need to get there. They need to have that discussion somewhere in the next year and adopt a policy. Mr. Hoff asks if they can change an amortization. Mr. Rizzo informs that it is the Board's call. They can start fresh all over again if they want.

Chairperson Gueits calls the question.

**Motion approved (10-2).**

Mr. Kleiman informs that he opposes the motion. He really agrees with Ms. Gomez that the Board should recommend that the City fund an amount above the required

contribution instead of giving them a dollar amount. He is in full support of the concept but he doesn't think they should give the City a number to fund and let the Commission decide based on recommendations from the Board of possible numbers. He is in support of the concept. Mr. Easley responds that the problem is that the City has always made the minimum contribution. They are not funding the COLA so if the City could contribute a little extra each year and they have a minimum base line then they are set at that amount. It will help increase the funding. Mr. Kleiman agrees with paying extra but giving a minimum amount is what he doesn't agree with. Mr. Chircut informs that he has the same comments that Mr. Kleiman had. If they are doing that they are sending a message to the Commission because they already have a report by the actuary. They could ask the actuary to put in next year's report including the prefunding. That could also be addressed at the Commission level. By giving them \$25 million which is about \$100,000 more than they are going to be contributing is really not a message strong enough. Mr. Garcia-Linares asks if he wants to recommend another number. Mr. Chircut doesn't think they should give any number.

Mr. Garcia-Linares asks what they would like the motion to be so the Board can support contributions to the plan with additional moneys. Chairperson Gueits asks if the thinking is if the Board recommends \$25 million as the minimum then the contribution may not be higher than that. Mr. Kleiman thinks that the Commission needs to understand the significance of prefunding some of the unfunded liability. He thinks they should address it now especially during the years when the contribution goes down. Chairperson Gueits asks that if the Board treats it as a minimum then the Commission will treat it as a cap. Mr. Kleiman agrees.

**A motion was made by Mr. Garcia-Linares and seconded by Mr. Hoff to reconsider the previous motion. Motion unanimously approved (12-0).**

**A motion was made by Mr. Kleiman and seconded by Mr. Garcia-Linares to pay the annual requirement plus the City Commission consider funding some of the unfunded liability with a higher contribution than what they are contractually obligated to fund to the plan. Motion unanimously approved (12-0).**

Dr. Gomez left the meeting at this time.

Ms. Gomez requests for the Board to allow the fund's auditors, Goldstein Schechter and Koch, to review the actuary report for compliance with GASB 67. She is requesting this now because there may be extra fees charged by GSK to do this. GRS has prepared disclosing material in the report for the auditors to use. She spoke with Clement Johns at GSK and they are trying to figure out a way where everything gets done in a timely manner. Then they can have all that field work done before the summer is over. That way when the auditors come in to audit fiscal year ending 2014 this part will be done in theory then they can work with GRS for the updated information in a timely manner. Mr. Rizzo thinks that anything the plan's auditor can do in the summer regarding GASB 67 then they will be better off for the upcoming reporting year.

**A motion was made by Ms. Gomez and seconded by Mr. Easley to allow Goldstein Schechter Koch to review this year's actuarial valuation report for compliance with GASB 67 for the next reporting year and complete their work by the end of August. Motion unanimously approved (11-0).**

Terry Sheppard, representative for the General Employees, informs that she has a question for the actuary. How much would the unfunded liability gone down if the General Employees cost sharing payments would have been made to reduce the unfunded liabilities? Mr. Rizzo responds that the employee contributions almost always are designated to help pay the normal costs. The total contribution pays the normal cost and amortization payments. The employee contributions generally speaking are almost always assigned to pay part of the normal cost. It creates a real puzzle when you try to designate employee contributions to pay for something other than the normal cost. It really would not make a difference if the employee contributions were designated to pay the unfunded liability instead of the normal cost. He thinks you have to answer a lot of other questions before they can answer that because if the money usually goes here and then it is moved there then they have to think through what the ripple effect is to that and whether it makes any difference or not. It is not a clear answer but there are a lot of moving parts to the process. Mike Tierney, City actuary, adds Mr. Rizzo is correct regarding the employee contributions but the reason why there is an increase in the member contributions is because the unfunded liability increased. A portion of the member contributions is already going toward reducing the unfunded liability.

5. Investment Issues.

Dave West reviews the May performance. They had a good month. For the month of May the fund was up 1.98% and fiscal year to date the fund is at 8.11%. They have already achieved the actuarial number for the year. They are in excellent position so far fiscal year to date. The domestic equity managers had a nice bounce back from a poor March performance. Thornburg international equity was up .98%. They have a recommendation to move on to better opportunities from Thornburg. WCM they just funded was under the benchmark a little. All the bond managers came in or above target benchmarks. Real Estate continues to provide steady returns. PIMCO funds also have nice returns. Fiscal year to date active managers are looking good but they do have an issue with Thornburg. The parent company of Winslow Capital, Nuveen, has sold the firm to TIAA-CREF so Winslow has been put on a watch list internally at The Bogdahn Group. They are reviewing this as the second significant holding company transaction over the last couple of years of this manager. Their research team will be going out to Winslow to do their due diligence visit. He will follow up regarding Winslow at the next meeting.

Regarding Thornburg, they are a defensive manager in nature however there has been sufficient periods in the market cycle where Thornburg could have had the opportunity to provide an index type return and that has not been the case. Their research team went to a site visit to Thornburg at the end of May and they came back with a less than favorable interpretation of events going on there. There was a material reassignment of key portfolio management responsibilities of the firm which their team is considering

possibly a knee jerk reaction or some sort of internal issues going on that have made their team less than comfortable with the strategy. As a result they have internally downgraded the manager from a primary recommendation in new searches to a hold and keeping the manager on watch. From his and Troy Brown's perspective in following the situation and for this program they are in agreement to seek better alternatives and move out from this manager and find a replacement. He did come prepared today to go over the manager evaluation but Ms. Groome advised him of the proper procedures that this discussion should go to the Investment Committee. Their recommendation is to make this change in the course of normal business. It is not a fire sale. The Bogdahn Group has not issued a termination recommendation on this manager. It is just their recommendation that they fund better alternatives.

Mr. Chircut voices his concern on the performance of Wells Capital in the last quarter. Mr. West informs that they would send an advice notice to Wells Capital about of the Board's concerns with their performance. They have done an analysis of the Wells portfolio. Wells is the broad cap growth manager. They look for companies that have the widest range of earnings estimates and that is the database they want to dive into. They go in and seek companies that they think will meet the high end and exceed that range of opinions from an earnings report standpoint. Almost all the companies they have identified have met the criteria they were seeking. They successfully identified the companies that exceeded or met the high earnings expectations. The process is working but what transpired in the market place looking at the growth companies that have been recognized most recently the last couple of quarters by the market are not the types of companies that Wells is pursuing. From their perspective they are okay. They recognize that the managers process is not in synch with what the market place is recognizing at the moment. They believe that the performance is excusable however they are happy to forward the concerns to them. They are watching it and that is their opinion as to what transpired.

Mr. West informs that they need to rebalance the portfolio. The fund has three index funds and the index funds are used as part of the administrative rebalancing for the program. They are able to direct the custodian to move in and out of these funds at no cost and take care of their monthly distribution needs.

**A motion was made by Mr. Hill and seconded by Mr. Easley to reload the index funds according to the spreadsheet from The Bogdahn Group and liquidate \$2.5 million from Thornburg to the cash account. Motion unanimously approved (11-0).**

Mr. West informs that their real estate allocation has performed exceptionally well. As a percent of total assets they are creeping over the investment targets. They are reviewing the possibility of taking profit from that allocation but for the immediate term the real estate continues to provide a more attractive investment return than the investment grade fixed income where those funds would be allocated to. They gave that consideration but they suggest holding the line at this time.

6. Old Business.

There was no old business.

7. New Business.

Mr. Easley welcomes the new Board members. He informs that as Board members, they participate in the Florida Public Pension Trustee Association schools that are offered during the year and that the new members should attend some of them to get more of a grasp as to what they do regarding the pension plan.

Ms. Gomez has a comment consideration for the Investment Committee. She would like to find a way to nominate Mr. Chircut to that Committee. He has been a City Treasurer for over 30 years but the way the composition is for the Committee is the Trustee, the Administrative Manager, a Commission appointee, which is Mr. Campbell, and two participating Board members. Mr. Garcia-Linares points out that the Investment Committee is open to anyone who wishes to attend and participate. So he can attend every single meeting. Ms. Gomez understands but to make Mr. Chircut a voting member they would have to remove one of the current members from the Committee. Chairperson Gueits states that they can also change the composition of the Committee. Mr. Hoff points out that if they increased the size of the Board then they can increase the size of the Committee. Chairperson Gueits is in favor of that but they will need an act from Congress to do it. Ms. Gomez states that Mr. Hoff or Mr. Hill can remove themselves from the Committee. Mr. Hill asks about Mr. Campbell. Ms. Gomez informs that Mr. Campbell is appointed by the Commission. Mr. Garcia-Linares asks if Mr. Chircut is a Commission appointee. Ms. Gomez informs that he was appointed by the City Manager. Mr. Easley points out that the previous City Manager didn't actually say that employees should be appointed he was referring to appointing two members from outside like City citizens. Ms. Gomez thinks they need a recommendation to the City Commission to consider adding more members to the Investment Committee. Mr. Garcia-Linares thinks that makes sense since they increased the number of Board members you might as well increase the number of Investment Committee members. Ms. Groome adds that the number of a quorum also needs to be amended in the ordinance.

**A motion was made by Mr. Easley and seconded by Ms. Gomez to recommend to the City Commission amending the ordinance to include two more members to the Investment Committee. Motion unanimously approved (11-0).**

8. Public Comment.

9. Adjournment.

There is no Retirement Board meeting in July. The next scheduled Retirement Board meeting is set for Thursday, August 21, 2014 at 8:00 a.m. in the Youth Center Auditorium.

Meeting adjourned at 10:30 a.m.

APPROVED

JAMES GUEITS  
CHAIRPERSON

ATTEST:

KIMBERLY V. GROOME  
RETIREMENT SYSTEM ADMINISTRATOR