

CORAL GABLES RETIREMENT SYSTEM

Minutes of August 10, 2023

Public Safety Building

Community Meeting Room A

2151 Salzedo Street

8:00 a.m.

MEMBERS:	O	N	J	F	M	A	M	J	A	APPOINTED BY:
	22	22	23	23	23	23	23	23	23	
Vacant	-	-	-	-	-	-	-	-	-	Mayor Vince Lago
Alex Mantecon	P	P	P	P	P	E	P	P	E	Commissioner Jorge L. Fors, Jr.
Juan Lucas Alvarez	-	-	-	-	-	-	-	-	P	Commissioner Ariel Fernandez
Michael Gold	P	P	P	P	P	E	P	E	E	Commissioner Kirk Menendez
Manny Carreno	-	-	-	-	-	-	-	-	P	Commissioner Rhonda Anderson
Joshua Nunez	P	P	E	P	P	P	E	P	P	Police Representative
Christopher Challenger	P	P	P	E	P	P	P	P	P	Member at Large
Sureya Serret	-	-	-	-	-	P	P	P	P	General Employees
Troy Easley	P	E	P	P	P	P	P	P	P	Fire Representative
Diana Gomez	P	P	P	P	P	P	P	P	P	Finance Director
Raquel Elejabarrieta	P	P	P	P	P	P	P	P	P	Labor Relations and Risk Management
Rene Alvarez	P	P	E	P	P	P	E	P	P	City Manager Appointee
Vacant	-	-	-	-	-	-	-	-	-	City Manager Appointee

STAFF:

Kimberly Groome, Administrative Manager

P = Present

Manuel Garcia-Linares, Board Attorney

E = Excused

Dave West, AndCo Consulting

A = Absent

Pete Strong, Gabriel Roeder Smith

Edemir Estrada, Gabriel Roeder Smith

Peter Tramont, Gabriel Roeder Smith

GUESTS:

1. Roll call.

Chairperson Mantecon was excused and Ms. Gomez called the meeting to order at 8:00 a.m. on his behalf. Ms. Gomez also welcomed Board members Mr. Manny Carreno and Mr. Juan Lucas Alvarez to the Board.

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 June 8, 2023.
- 2B. The Administrative Manager recommends approval of the following invoices:
1. Gabriel Roeder Smith invoice #478690 for May 2023 administrative services in the amount of \$13,250.00.
 2. Gabriel Roeder Smith invoice #479286 for June 2023 administrative services in the amount of \$15,750.00.
 3. Gabriel Roeder Smith invoice #479295 for May 2023 and June 2023 actuarial services in the amount of \$10,422.
 4. City of Coral Gables invoice due to G/L January 1, 2023 through March 31, 2023 in the amount of \$34,776.38.
 5. City of Coral Gables invoice due to G/L April 1, 2023 through June 30, 2023 in the amount of \$31,187.68.
 6. City of Coral Gables invoice 363277 for general liability insurance from July 2023 to September 2023 in the amount of \$1,194.25.
- 2C. The Administrative Manager recommends approval of the following Retirement Benefit Certifications: DROP - Alvaro Escalona (Police Officer), Simone Chin (General Non-Excludable Employee), Emir Moises (Police Officer), Jorge Gonzalez (General Non-Excludable Employee), Michael Kattou (General Excludable Employee-Supervisory), Arnold Mohamed (General Non-Excludable Employee); Retirement - Karla Green (General Excludable Employee - Managerial); Keith Kleiman (General Excludable Employee - Managerial), Darlene Dean (General Non-Excludable Employee); Vested Rights – Jorge Acevedo (General Excludable Employee - Professional), Joel Hitchman (General Non-Excludable Employee).

A motion to approve the Consent Agenda was made by Mr. Rene Alvarez and seconded by Mr. Easley. Motion unanimously approved (9-0).

- 3 Comments from Retirement Board Chairperson.

Chairperson Mantecon was excused and Ms. Gomez had no comments.

4. Items from the Board Attorney.

Mr. Garcia-Linares expressed his gratitude to Ms. Groome for her service and stated that the administration of the Retirement System has now transitioned over to GRS. Ms. Groome will continue to work for the Board by helping in other capacities, and has worked very hard to ensure that the rented office space was unoccupied on time and as required. A second item was regarding handling an issue regarding somebody's employment status and job title. The third item was with regard to funding and how much is being funded to the pension plan. There has been some discussion about possibly reducing the additional funding by 25% and Mr. Garcia-Linares invited Pete Strong, actuary of the pension plan, to provide a recap and overview of this matter. As recommended by the actuary, that would significantly increase the cost of the fund.

Mr. Strong addressed the Board by mentioning that for the last 6 years, the City has been submitting extra funds in October of each year towards the unfunded liability and the result of those funds has been a dramatic reduction in the unfunded liability. The unfunded liability has been reduced almost about \$50 million more than it would have without those extra City payments. The fund is in a much better shape than otherwise would have been.

Mr. Strong also prepared an exhibit to go over and explain what the impact of the status quo would be versus lowering the extra City payments by 25%. Without a 25% reduction, the City is expected to contribute a total of \$30.4 million and the required contribution is about \$21,092,133; which means there's over \$9.3 million in "extra City contributions" expected this year to go towards the unfunded liability.

The left side of the exhibit showed what the pay down of the unfunded liability would look like if the City continues on its current track. From 2022 to 2023 the unfunded liability only goes down by about \$5.5 million and that's because there's a big phase-in of the 2022 market loss. Without the extra payment, the unfunded liability would actually go up this coming year. The extra payment helps the unfunded liability to continue to go down. Then, the unfunded liability should be almost fully paid off by 2032, even reflecting the market value loss from fiscal year 2022, with the extra City payments on their current trajectory. The right side of the exhibit showed that if those extra City payments were reduced by 25%, this year the extra payment would be decreased from a little over \$9.3 million to less than \$7 million. In 2023, there would be about \$2.3 million less going towards the unfunded liability so the unfunded liability would go to about \$152,870,260 instead of \$150,542,510.

In total, the City's contribution in 2023 would be a little over \$28 million instead of about \$30.4 million. Over time, if the same trend continues, that \$28 million would still be expected to grow at the same rate as the \$30.4 million (+1.25% per year), and then the City would end up paying off the unfunded liability by 2034 instead of by almost 2032. It's about a one and a half year in when the unfunded liability would get paid off as a result of the 25% reduction in extra City payments.

Mr. Strong also mentioned that although it's not reflected on the exhibit, the current investment return assumption is 7.2% and it's been recommended to go down to at least 7% and possibly further, below 7%. The Florida Retirement System is currently using 6.7% as their return assumption. The average return assumption for all of GRS clients is about 6.8% and Mr. Strong is recommending continued reductions in the return assumption, so that would further delay the payoff of the unfunded liability. The projected payoff dates on this exhibit reflect 7.2% as a return assumption.

Lastly Mr. Strong pointed out the interest savings. The current amortization schedule versus a 25% reduction in extra City payments results in interest savings of about \$11.6 million. That's savings directly to the City. By paying more money sooner rather than later, the City would save about \$11.6 million in interest.

At this time, Ms. Gomez provided a brief overview to the new Board Members, in terms of the history of the extra payments the City has been submitting in October of each year towards the unfunded liability. The effect of the paydown has helped and the goal is to get into 100% funded as soon as possible.

Mr. Garcia-Linares raised a question asking to confirm if one of the reasons they were doing this, other than the fact that they want to get the budget funding, is that there were questions about

whether or not the City's triple A credit rating could be affected by the fact that the plan was underfunded and how the City would be affected by that. Ms. Gomez responded affirmatively. Since they put in place these policies and resolutions to make those extra payments the City got the triple A rating back in 2017.

Mr. Nunez commented on the fact that, as a result of the extra payment made by the City, the retirement money that has been saved was about \$50 million, as mentioned by Mr. Strong. Mr. Strong added that around \$50 million has been the additional reduction in the unfunded liability due to the extra City payments over the last 6 or 7 years. Mr. Nunez also asked to confirm whether a change to the percentage would cause an impact. Mr. Strong responded affirmatively adding that if the investment return assumption is reduced, that will delay it a little further because, right now the assumption is 7.2%, but it will possibly be going down further to 7% or lower.

Mr. Garcia-Linares explained that it is a budget decision for the City and the decision by the Commissioners. A motion could be made to send a statement or resolution asking to continue the same way that it's been funding since 2016. Ms. Gomez added that there's going to be a discussion regarding this matter at the August 22nd, 2023 Commission meeting.

Mr. Garcia-Linares commented on the possibility to resume workshops between Commissioners and the Retirement Board to address the importance of this matter.

A motion was made by Mr. Rene Alvarez and seconded by Mr. Easley for the Board attorney to draft a resolution recommending the City Commission stay the course and continue to make additional payments to fund the pension unfunded liability. Motion unanimously approved (9-0).

Mr. Easley asked for clarification regarding one of the items mentioned by Mr. Garcia-Linares and Mr. Strong's presentation, and Mr. Garcia-Linares explained that the item was in regard to whether or not someone should get additional benefits as a result of what the job title was, the case was referred to one of his colleagues.

5. Items from the third-party Pension Administrator.

Edemir Estrada introduced herself to the new Board members, and mentioned that she works at GRS along with Peter Tramont, and they both have been working with Kimberly Groome under a hybrid arrangement, however effective July 1st 2023 GRS became the full administrator on a 100% capacity.

Ms. Estrada thanked Ms. Groome for being available anytime her assistance is needed her. Members of the pension plan have been contacting GRS directly through the Call Center and there are no issues to report.

An update was provided to the Board on the number of active and inactive members that are currently registered on the portal. There was a 3.5% increase on the number of new members that have registered since June 2023.

The pension portal is a tool that every single participant should be using, whether to obtain estimates, update their personal information online, etc. Ms. Estrada added that they encourage every single participant to register on the portal. Additionally, GRS continues to work with vendors, the Board Attorney, Ms. Groome on anything related to the pension plan.

Peter Tramont mentioned that GRS has been receiving the retroactive lumpsum adjusted final earnings reports for current active members of the plan, from Ms. Groome. This information has been received on a daily basis and it's for the purpose of loading in all that information in the Pension Soft system, which is required for the final benefit certifications for members.

Mr. Tramont thanked Mr. Groome for doing all that work. Basically, every day GRS has been getting all those earnings putting it into the system and giving priority to members that are actually retiring sooner. Ms. Groome mentioned that she started working on the most senior employees that are retiring sooner and has already provided a total of 69 of these reports.

Ms. Gomez added that for the next few months the City will be converting over the EDEN system into the INFOR system, and they're probably going to be setting up some meetings with GRS to see how the City will be getting the data over to GRS back and forth, for all the pension information. The City is planning on going live with the HR side of the house on October 1st, 2023. Within the next few weeks they will be working with GRS on how to get the HR data and Payroll data over to GRS.

Mr. Nunez had a question regarding when the time comes and Payroll has no glitches on INFOR, and Ms. Gomez explained that EDEN and INFOR are running at the same time until January 2024. Right now, they are still in EDEN then by January they're going to be fully transitioned over to INFOR. That will be an easy transition.

6. Investment Issues.

Dave West welcomed new Trustees, introduced himself and commented on the services provided by AndCo. Consulting; including investment consulting services and engineering design for the investment program. Mr. West reported on the Flash report, Quarterly report, rebalancing recommendation; also addressed House Bill 3 (HB3) and the Investment Policy Statement.

We have an economy that is doing okay and we've got an employment rate at 3%. A handout was provided and explained by Mr. West to the Board. There's been some optimism in the equity markets that has fueled a pretty nice rally. The returns are coming from 7 stocks. One of the charts showed a breakdown in the S&P 500 index; tracking a rate of return of 19.59%. If taking out the returns of those 7 stocks the investment return then it gets produced at 13.49%

A table on the bottom right listed those stocks: Alphabet 35%, Amazon 55%, Apple 49%, Microsoft 42%, NVIDIA 189%, Tesla 112%, Meta 138%.

This is a very limited, very narrow breath market. The pension plan money managers did very well in this environment, but other managers that are faced with such a concentrated area of return with a limited number of stocks, really struggled to keep up in this environment. This is the top observation for equities. In regard to what transpired in fixed income, the yield curve continues to suggest a recession. The other very important observation that we need to be tracking here is what's going on with perceptions on credit, industry-wide credit.

Mr. West went over the Asset Allocation, and allocation targets. The engineering plan comes straight out of the Investment Policy Statement. Every month we track where we are and there is an active recommendation today to raise cash. We almost got to the end of the year before we get the City's annual contribution but we need to raise an additional \$5 million.

The recommendation is to take a 1% off the table there from domestic equity by selling \$5 million of the S&P 500 index fund and moving those funds to the R&D account to handle any additional benefit payments between now and the City contribution.

A motion was made by Mr. Easley and seconded by Mr. Rene Alvarez to sell \$5 million of the S&P 500 index fund and move those funds to the R&D account. Motion unanimously approved (9-0).

In regard to investment returns, Mr. West mentioned that this program is in great shape. Fiscal year to date is 17.53%. This is one of the better performing programs in the State and may be even the country. The numbers look good.

Mr. Garcia-Linares added that Mr. West should also touch base, for the new Board members, on the issue that even if we end as well as it is right now, we don't get the full benefit of that immediately; to which Mr. West agreed and asked Mr. Strong to comment and confirm that he was using actuarial smoothing. Investment volatility is very high. We've got a pretty high rate of return target although we brought that down. To account for that volatility and take some of the pressure off of year to year City funding requirements for using a smoothing methodology in here which means to manage point we don't get to take that excess return and realize all that in one year, to the extent we finish over 7.2%.

Mr. Strong commented on information provided on the flash report, rate of return and how that would be affecting this year's actuarial calculation.

Hedge fund is up 11% versus a bond market equivalent that's up 3.93%. The only, area of continued concern continues to be the real estate market. But the issue, the primary issue on the table, especially with the JP Morgan fund, is the, is the office exposure.

Mr. West reviewed the Financial Reconciliation. The fund opened up FY2023 with \$391,659,020. Total Contributions \$34,231,271; Benefit payments \$37,575,000; Investment management fees \$1,985,060; Other expenses \$142,078; Income \$6,661,378; Appreciation FYTD \$66,908,368. Market value at the end of July 2023 was \$459,757,899.

The last item reported by Mr. West was in regard to the House Bill 3 and statutory requirements. He explained that all investments must be made for the sole purpose of either making money or managing risk, and the plan has always invested for maximizing return and managing risk.

Once the current Investment Policy Statement has been amended and approved by the Board, the document gets circulated to the State, the actuary and the City. Then Mr. West, as the investment consultant, will have to circulate a document to every single investment manager and get them to sign off on that document as well to cover that trail.

A motion was made by Mr. Easley and seconded by Mr. Nunez to amend the Investment Policy Statement with the language mentioned by Mr. West and associated to House Bill 3. Motion unanimously approved (9-0).

7. Old Business.

There was no old business.

8. New Business.

There was no new business.

Mr. Nunez asked whether there were any issues related to payments processed by PenChecks to which Ms. Estrada responded that no issues have been encountered.

9. Public Comments.

Retiree Harry Pickering thanked the Board for its unanimous vote to pass its resolution on to the Commission. Mr. Pickering added that retiree Martin Barros was having technical difficulties and he would also like to thank the Board. Mr. Pickering would ask that the appointed representatives from each of the Commissioners and the Mayor go back to their elected official and express the Board's support of the motion and the resolution. Mr. Pickering also thanked Mr. Strong for his presentation and thanked all the Board members.

Additional comment in the meeting room was to show appreciation to the Board on everything they do. It's important work Thanks to the people that volunteer to be part of the Board, to Mr. West and Mr. Strong.

10. Adjournment.

Meeting adjourned at 9:05 a.m.