

CORAL GABLES RETIREMENT SYSTEM

Minutes of September 10, 2009

Youth Center – Auditorium

405 University Drive

8:00 a.m.

MEMBERS:

S O N D J F M A M J A S

APPOINTED BY:

Steven Naclerio	P	P	E	P	P	P	P	P	P	P	P	P
Manuel A. Garcia-Linares	P	P	P	P	P	P	P	P	E	P	P	P
Tom Huston, Jr.	P	P	P	P	P	E	P	P	E	P	P	P
Sal Geraci	E	P	P	P	P	E	P	P	P	P	P	P
Leslie Space	P	P	P	E	P	P	P	P	P	E	E	P
Agustin Diaz	P	P	P	E	E	P	P	E	P	P	E	P
Troy Easley	P	P	P	P	P	P	P	P	P	P	P	P
Victor Goizueta	P	P	P	P	P	P	P	P	P	P	P	P
Wayne Sibley	P	P	P	P	P	A	P	E	P	P	P	P

Mayor Donald D. Slesnick, II  
Vice Mayor William H. Kerdyk, Jr.  
Commissioner Maria Anderson  
Commissioner Rafael “Ralph” Cabrera  
Commissioner Wayne “Chip” Withers  
Police Representative  
Member at Large  
General Employees  
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

A = Absent

E = Excused Absent

P = Present

GUESTS:

Marjorie Adler, Human Resources Director

Chairperson Tom Huston calls the meeting to order at 8:06 a.m. There was a quorum present. Mr. Diaz, Mr. Garcia-Linares and Mr. Geraci were not present when the meeting was called to order.

1. Roll call.
2. Approval of the Retirement Board meeting minutes for August 13, 2009.

**A motion was made by Mr. Sibley and seconded by Mr. Easley to approve the meeting minutes of August 13, 2009. Motion unanimously approved (6-0).**

3. Approval of the Retirement Board Executive Summary minutes for August 13, 2009.

**A motion was made by Mr. Sibley and seconded by Mr. Goizueta to approve the Executive Summary minutes of August 13, 2009. Motion unanimously approved (6-0).**

4. Items from the Board attorney.

Mr. Greenfield reports that he prepared a lawsuit with the Police and he ran it by the City Attorney's office. He sent the letter to the attorney for the Police informing that he wanted to give the 185 Board the opportunity to respond to the suit. That Board is having their meeting today and when he hears about their response to the suit he will report back to the Board.

He is working with the outside City counsel regarding changing the Retirement Ordinance because of changes to Florida Statutes 175 and 185. He has also been working with the Police Health Insurance attorney to come up with a set of rules that would be acceptable with the IRS which would allow police retirees the benefit of not having to pay tax on their retirement income the portion that is used for their health insurance. Mr. Sibley believes this also applies to firefighters. Mr. Greenfield responds that he will look into that and get the answer and apply the rules to firefighters also.

At this time Mr. Garcia-Linares arrives at the meeting.

Mr. Greenfield informs that he prepared a draft letter to the State of Florida Attorney General as requested by Mr. Naclerio at the last meeting. He thinks they will be able to put together a good presentation to the Attorney General as to whether or not they can use electronic means to have a quorum if necessary.

At this time Mr. Geraci arrives at the meeting.

5. Report of Administrative Manager.

**A motion to accept the following items of the Administrative Manager's report without discussion was made by Mr. Sibley and seconded by Mr. Easley. Motion unanimously approved (8-0).**

1. 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 August 2009 for the September 2009 benefit payments.
2. For the Board's information Floyd Graham of the Public Works Department passed away in July 2009. He retired on August 1, 1974 with service connected disability. He had no children under the age of 22 and his spouse is deceased therefore his benefit ceased.
3. For the Board's information, the following Employee Contribution check was

deposited into the Retirement Fund's SunTrust Bank account:

- Payroll ending date August 2, 2009 in the amount of \$71,752.80 was submitted for deposit on August 10, 2009.
  - Payroll ending date August 16, 2009 in the amount of \$70,241.94 was submitted for deposit on August 22, 2009.
4. A copy of the detailed expense spreadsheets for the month of August 2009 is attached for the Board's information.
  5. A copy of the Summary Earnings Statements from the Northern Trust Securities Lending Division for billing period July 1, 2009 to July 31, 2009 is attached for the Board's information.
  6. Attached for the Board's information are the Statements of Pending Transactions and Assets as of July 31, 2009 from JP Morgan.
  7. Attached for the Board's information is the Statement of Settled Transactions from July 1, 2009 to July 31, 2009 from JP Morgan.
  8. For the Board's information a copy of the Commission Analysis prepared by Knight for the second quarter 2009 is attached.
  9. For the Board's information a copy of an email response dated August 14, 2009 from Keith Brinkman of the State of Florida Division of Retirement regarding the UBS lawsuit settlement.
  10. Attached for the Board's information is an email dated August 18, 2009 and a letter dated August 25, 2009 to John Baublitz of the FOP from Stanley Holcombe & Associates.
  11. An article from FundFire dated August 29, 2009 is attached for the Board's information regarding The Bogdahn Group branching out into the Midwest.
  12. For the Board's information is a copy of a guest column by Raymond T. Edmonson of the Florida Public Pensions Trustee's Association published in the Florida Times-Union newspaper in Jacksonville, Florida on August 26, 2009.
  13. Attached for the Board's information is a copy of an email from Barings North American dated August 18, 2009 updating customers on their investments products.
  14. Attached are copies of JP Morgan's email newsletters for the months of August 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.

Chairperson Huston informs that he spoke with the City Manager regarding item 9 about the UBS Settlement and the City Manager requested that this item be deferred until the October meeting. Mr. Garcia-Linares understands that the State has said that the settlement amount cannot be treated like the City wanted but it is still under discussion. Ms. Groome agrees. Mr. Garcia-Linares thinks there is no reason to discuss the issue now until there is a final decision made by the State.

6. Employee Benefits:  
(The Administrative Manager recommends approval of the following Employee Benefits.)

Retirement Benefits:

Retirement application of Norma Dieppa of the Police Department, 22 years, No Option, effective September 1, 2009.

RESOLUTION 3114  
A RESOLUTION GRANTING NORMAL RETIREMENT BENEFITS  
TO  
NORMA DIEPPA

WHEREAS, Norma Dieppa has applied for retirement effective September 1, 2009, and,

WHEREAS, Norma Dieppa requests to take No Option with her last working day August 30, 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 Norma Dieppa retirement benefits under No Option as certified by the Actuary, the first day of every month, beginning September 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. Dieppa's retirement application was made by Mr. Sibley and seconded by Mr. Goizueta. Motion unanimously approved (8-0).**

DROP Benefits:

DROP application of Paul Arro of the Cable TV Division of the City Manager's Office. Effective date September 1, 2009.

**A motion to approve Mr. Arro's application for the DROP (Deferred Retirement Option Plan) was made by Mr. Garcia-Linares and seconded by Mr. Goizueta. Motion unanimously approved (8-0).**

DROP application of Olga L. Garcia of the Finance Department. Effective date October 1, 2009.

**A motion to approve Ms. Garcia's application for the DROP (Deferred Retirement Option Plan) was made by Mr. Sibley and seconded by Mr. Easley. Motion unanimously approved (8-0).**

DROP application of Alina Suarez-Garcia of the Communications Division of the Police Department. Effective date October 1, 2009.

**A motion to approve Ms. Suarez-Garcia's application for the DROP (Deferred Retirement Option Plan) was made by Mr. Goizueta and seconded by Mr. Sibley. Motion unanimously approved (8-0).**

Buy Back of Prior City time, Other Public Employer Service, Military Service Time:

Application of Walter Foeman, City Clerk, requesting to buy back 224 days (7 months, 11 days) of Other Public Employer Service Time with Broward County (Florida Retirement System).

**A motion to approve Mr. Foeman's application to buy back 224 days (7 months and 11 days) of Other Public Employer Service Time was made by Mr. Sibley and seconded by Mr. Goizueta. Motion unanimously approved (8-0).**

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

Crain Communications invoice #260189 dated August 24, 2009 for advertisement in Pensions and Investments publication for the Request for Proposal for Independent Auditor in the amount of \$1,155.00.

**A motion was made to approve Crain Communications invoice in the amount of \$1,155.00 by Mr. Goizueta and seconded by Mr. Easley. Motion unanimously approved (8-0).**

8. Investment Issues.

Mr. West reports that they had another good month and logged some more gains. Financials completely trumped the rest of the market sectors for this month. The rate of

job decline is still grievous but the rate has slowed. The talking pundits are suggesting a positive GDP growth in the 3<sup>rd</sup> quarter and that the economy may have moved out of the recession as it has been defined. The fund's investments went into the period pretty much on target. The allocation is about 1% under in their domestic equity and about 1% over in their international equity so the overall equity market is on policy. Real estate has dropped below 1.3% because of the relative appreciation of the other asset classes. When they look at the performance for August the asset allocation did not help or hurt the fund. They were basically on the targets. They are very close to a break even on the year. For the month the fund has a rate of return of 1.96% and the domestic equity added 2.67% of that. The international component continues to outperform the domestic from an index level and was up 3.06%. Bonds helped the fund with good performance and the real estate had a decline of 1.15% for the quarter. Mr. Garcia-Linares asks if they continue to be in the same position waiting to see when they get their funds. Mr. West responds that there is no change.

Mr. Sibley notices that out of a total of eleven of the vehicles the fund is in eight of them were below the benchmark. Mr. Space states that if you look at total domestic and total international for the quarter or the month they are down on all of them versus the index. Chairperson Huston asks why that is. Mr. West responds that the managers they are invested with are looking to purchase lasting companies. He thinks you can make a case that all the C and D rated companies during the June quarter which carried over in August have really driven this so the companies that were perceived to be going out of business or going away are really the ones that have been driving this rally. A lot of it has been driven by Financials. Most of the managers have been consciously under weighting or avoiding the financial sector.

Mr. Space comments that they were down about 45% from their high and it takes 65% to get back to where they were so every percent is a big deal. Mr. West agrees. The quality issue for this rally to date has been very significant and has a huge impact on manager returns. Capitalization is also an issue. The smaller the cap the higher the returns have been and the managers are taking advantage of that.

At this time Mr. Diaz arrives at the meeting.

Mr. Goizueta clarifies that in 7 months the fund has recuperated \$40 million. There are a lot of critics out there saying that the Board has been doing bad investments and in 7 months they have recuperated \$40 million. Mr. Sibley asks Mr. Nelson how much the City put into the fund out of the \$40 million. Mr. Nelson responds that it was \$24.8 million. They had a required contribution of \$21.5 million and they added \$3.2 million at the beginning of October 2008. Mr. Goizueta asks how much the City put into the fund from February until August 2009. Mr. Nelson responds that you have to look at a lot of different factors in order to determine how much money the City put into the fund during that period. Mr. West thinks there is another way to look at it. If you look at the fiscal year period, they opened the plan year with \$220,894,000. The fiscal year to date investment return has been down 9.9% or approximately 3.8%. Through this fiasco and rollercoaster ride the investments are down about 3.8%.

Chairperson Huston states that he is reading more and more about how the commercial real estate is getting ready for a huge decline. Should they consider increasing their application to pull more money out of JP Morgan? Mr. West replies that they could but from a practical limitation standpoint there has been no change in the back log and they would not be able to see any of that money come out if they did do that. Chairperson Huston asks if there is no way for them to avoid any hit if the real estate declines 30% to 40%. Mr. West responds that there is no way to avoid it. Mr. Naclerio asks what the philosophy of this manager is. Mr. Brown responds that the second quarter this year there was \$7 billion in commercial real estate transactions. The second quarter of 2008 there was \$40 billion and the second quarter of 2007 there was \$153 billion. It is simple supply and demand. No one wants to buy and if they want to buy they can't get financing for it. The way the fund is operating is a growing concern. It is not being affected by a low occupancy rate or a tenant abandonment issue it has more to do with appraisers getting berated for continuing to write of the value of these properties and now they are applying more conservative metrics to it. They still hold the same marquee properties but it continues to be written down by the appraisers. He believes the occupancy rate on the non-value added portion of the portfolio is 91% as of 6/30/09. Every fund is in the same position. JP Morgan has indicated that they will start paying down the queue by the second half of 2009. Chairperson Huston asks if there is a way to protect them if real estate goes down further and they can't get their money out. Mr. Brown responds that there is no way to protect the value in the fund now. Chairperson Huston asks if they could do something like short a REIT that would parallel this. Mr. Brown informs that he would have to look at the investment policy. He thinks there is a financial way to hedge against this fund. He would like to come back to the Board next month with a recommendation on what the fund can do with the real estate component.

Mr. Diaz points out that real estate is a long term investment and they look at the fund long term. Mr. Sibley agrees. Mr. Brown informs that they are still getting 1.5% a quarter in income on the property so it is still being well managed. Chairperson Huston asks if they are taking the long term view and these investments are premier properties should they get out of the queue and let it stay for a while. Mr. Naclerio agrees with that. He thinks the consultants can come back to the Board at the next meeting with some recommendations.

Chairperson Huston states that some consultants are recommending alternative investments, specifically 5% to commodities. The policy does not embrace commodities. Is that something they should consider? Mr. Geraci answers negatively. Chairperson Huston states that he is not talking about pork bellies but there is EAFE indexes that track commodities and there are other things that have type of liquidity. Should they look at that because with all the debt the government is issuing they are going to have inflation down the road? Is this something they can consider? Mr. West informs that they can come back to the Board with some information on that. In recommending alternatives is a broad definition and he thinks they have been pretty proactive in presenting alternatives and he hopes sooner or later that something will fall in line. Mr. Geraci informs that he has been doing some research regarding alternative investments away from equities.

There was an article in the New York Times by Warren Buffet with concerns about some pull back in equities in the future. Can they look at some of these alternative investments and maybe not utilize an investment manager but utilize a skilled secured team and purchase through Northern Trust some of these investment instruments like corporate bonds and preferred stock and make that another line item in the investment portfolio? Mr. Naclerio asks if their bond managers are supposed to be looking at that type of investment. Mr. West answers affirmatively. If you look inside your bond manager's portfolios the bond managers are doing that. They were actually pretty early in and have picked up a nice yield. They have captured some incremental return. The bond returns for the quarter are 4.87% versus 2.64%. That outperformance came from that type of strategy.

Chairperson Huston asks for the consultants to come back to the Board with the following: what they see happening in the real estate space, explore alternative investments and explore a drop in the allocation to equities and an increase in the allocation to fixed income.

Mr. Space states that they referred to this rally as managers buying junk stocks. Does that count for international? Mr. West answers affirmatively. Mr. Space asks what a junk international stock is. Mr. West it will be either classified as an emerging market, a financial or a small cap. Mr. Space states that they have the equity managers to go to small cap when it is happening. Mr. West thinks it is fair to say that the international strategy they are looking at the same head wind as the domestic equity managers.

9. Old Business.

Mr. Naclerio asks what is the driver of the problem the actuary brought up. Is the plan paying too rich benefits? Are there too many employees? Is there too much overtime? Is the plan not earning the amount it should be earning? Mr. Nelson responds that it is all of those things. In all fairness to the employees the benefits have not changed. The benefit factor has not changed. The calculation of benefits has not changed. What has driven the high benefit is that salaries have increased greater than the assumption that the actuary uses in his report. They had an unusual increase in salaries from the 2007 report to the 2008 report. That was the largest driver in the increase in the annual contribution by the City. Mr. Geraci informs that he has been approached by his neighbors and has had some comments that the data may be wrong. Those numbers come from this system that is supposed to give them functional data. Are these numbers correct? Mr. Nelson answers that the salary change of the total salaries for 2007 and 2008 the actuary was attributing to a percent increase of 16.8% and the actuary expected 4.92%.

Mr. Sibley states that is going to make a big difference and he thinks the City is taking affirmative action to reduce pension costs. He believes that the Board was slandered at the Police impasse meeting but he has nothing in writing regarding what was said. When he gets the written copy he will address it. Mr. Goizueta asks how they can get a better grasp on what was that 16%. Was it overtime or promotions? Can they break it down further? Ms. Groome informs that all the Board members are welcome to look at the data



she sent to the actuary. They can look at every employee she went through and took away all allowances and other items from the gross that does not get included in an employees gross pay for retirement purposes so that the amounts sent to the actuary were accurate.

Mr. Space states that this didn't happen in the last two years. This is a combination of things that happened since 1992. They had a huge amount of overtime that started in 1992 and it kept on into 2000. In addition to that in 2000 and 2001 they had a market crash and they had a good recovery for the next five to six years and then they had another crash. They had two market crashes and a ton of overtime. This whole situation is a fifteen year old deal. It isn't a two year old deal. They have to get themselves out of this situation and they are going to pay for the excessive overtime for 30 years. Once the 30 year period is up and the City gets the overtime cleared up they will get out of it. It is going to take that long because they are paying 7.75% interest on those mortgages. During the time frame when the fund was funded in the 1990s the City wasn't making contributions for a rainy day. You take all those things together and that is what you have right now.

Mr. Goizueta states that during the budget hearing they kept saying the employees got a 16% raise. That is not true. They are going to try and destroy the General Employees with the pension fund. These facts have to be clarified and he wants to know what the problem was regarding the increase in salaries.

10. New Business.

Mr. Nelson brings the Board up to date on issues that have come before the City Commission. On Monday, August 31, 2009, there was a collective bargaining impasse hearing with the City Commission and the Police FOP. In that impasse hearing there were significant changes to the retirement system proposed and the Police FOP agreed in a favorable vote to accept a bargaining agreement and was ratified on September 8<sup>th</sup> by the City Commission. Included in the Police bargaining agreement are the following: the Police would start contributing to the retirement system starting September 30, 2009 and for that they will be allowed to have Rule of 70 for entrance into the DROP; beginning September 30, 2009 overtime will be reduced from 600 to 300 hours for calculation of retirement; and beginning September 30, 2009 the sell of accumulated comp time to be calculated in the retirement average is no longer allowed.

Mr. Nelson continues. The City Commission approved on September 8<sup>th</sup> that the excluded employees which are employees not part of a bargaining unit will contribute 10% into the retirement system beginning September 30, 2009. Excluded employees have been contributing 5% into the system and now it is being raised 5% more. When that was brought forward to the Commission there was an amendment that the appointed employees, City Attorney and City Clerk, will begin contributing 5% into the retirement system beginning September 30, 2009. There is an amendment to the ordinance that allows appointed officials who opt out of the retirement system for the City to fund 15% of pay to an outside 401a plan investment account for an appointed official and it is

effective April 6, 2009. The City and the General Employees, who have voted for the Teamsters to represent them, are currently in negotiations. That is ongoing at present time with significant changes to the retirement for them.

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

Meeting adjourned at 9:56 a.m.

APPROVED

TOM HUSTON, JR.  
CHAIRPERSON

ATTEST:

KIMBERLY V. GROOME  
RETIREMENT SYSTEM ADMINISTRATOR