CORAL GABLES RETIREMENT SYSTEM
Minutes of November 8, 2007
Youth Center Theater/Auditorium
405 University Drive

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

STAFF:
Kimberly Groome, Administrative Manager
Donald G. Nelson, Finance Director
Troy Brown, Merrill Lynch
Alan E. Greenfield, Board Attorney

A = Absent
E = Excused Absent

GUESTS:
Commissioner Ralph Cabrera
Ron Cohen, Esquire
Dan Thornhill, IAFF
Mike Chickillo, IAFF
Jeannie Berryhill, General Employees Association
Robert Sportsman, IAFF
Julio Torres, IAFF
Steve Bush, IAFF
Tom Zelenak, IAFF
Elba Gonzalez, Fowler White
Marj Adler, Human Resources
Sebastian del Marmol, Coral Gables Gazette

Chairperson Sibley calls the meeting to order at 8:06 a.m. There was a quorum present.

1. Roll call.

Chairperson Sibley informs that there have been some new developments regarding the issues with the State. He asks Mr. Nelson to address those issues. Mr. Nelson informs that the questions are what is the City doing concerning the issues from the State regarding the release of the 175/185 funds to the fire and police. The State is still withholding those funds. The first issue is the outstanding $3 million from the reduction of the actuarial assumption rate. The State has agreed to continue the same practice of the City's funding gradually $500,000 per year to pay down that $3 million and account by taking the current contributions and paying off that $3 million debt and putting it on the backend of the ending year as a receivable. It is a combination of an accounting issue and a funding issue. The City is in a position now to budget the $3 million to fund that and the State has agreed for the City to pay that over time. Chairperson Sibley asks if for the next six to seven years they are always going to be behind until it is paid off. Mr. Nelson agrees unless the City can fund more in its budget to pay off that debt. That is an ongoing issue and the State has accepted that. Until the City resolves these issues the State will not release the funds to the 175/185.

Mr. Nelson explains that the second item is that the State is requesting quarterly funding of the City's contribution. The City has been funding annually in advance and the State is requesting quarterly deposits into the plan. The City will comply with the State.

Mr. Nelson informs that the third item is that there were some accounting items. For example the State wanted proof that the City was depositing $22.5 million into the fund and they wanted a copy of the check and proof that the City made the deposits.

Mr. Nelson states that the fourth item is the bigger item which is the 5% contribution that the firefighters contribute from their payroll that goes into the retirement system. This is an issue that was collectively bargained between the firefighters and the City administration to have their 5% contributed into the retirement system without an added benefit. The State's position is that the firefighters can contribute 5% but the City needs to provide an added benefit to those firefighters. Until that issue is resolved the State will hold the 175/185 funds. The City administration is trying to work with the firefighters bargaining unit and collectively work with the State to resolve this issue and in the meantime the firefighters have requested the 5% contribution back as a refund as the City did with the police officers. They are going to make a decision but he doesn't know if the City will refund the money back to the firefighters or if the City and the firefighters will work together as they originally planned and go to Tallahassee to say they collectively can bargain the right to have the firefighters contribute 5% to the plan.

Chairperson Sibley asks about the quarterly contributions from the City. Instead of giving $20 million in January the City will hold that $20 million and only contribute $5 million each quarter. In the meantime the City is earning interest on that money. Will that money be held in a separate account? Mr. Nelson responds that the City will comply with the State and contribute quarterly deposits from the City's General Fund to the Retirement Fund quarterly. The City's General Fund will retain the money and earn the interest and the deposits to the retirement fund will be done quarterly. Instead of the retirement system receiving all the money up front like the fund has received in the past the State's position is they need to fund quarterly. Mr. Naclerio asks what the State's rationale is for wanting the contributions quarterly. Mr. Nelson responds that it is in the State Statute. He believes that the purpose for the quarterly contributions is to keep the cash flow equal for cities to operate and not put a big burden up front. Mr. Space asks if it would be reasonable to send a letter to the State explaining what they just talked about and ask them for the City to have the ability to deposit the City's whole contribution up front and get a response on paper as to why they can't. Mr. Nelson responds that they can provide that letter.

Chairperson Sibley acknowledges Commissioner Cabrera is attending the meeting today.

Mr. Easley informs that he had emailed Mr. Nelson and asked him some questions and Mr. Nelson did address most of them. The issue with the Annual Report keeps continuing to be late every year. He would like to make a deadline that the Report be completed at least a month prior to the due date of the report. They are paying the auditors to do a job for them and the least they can do is get the report done on time. He asks if the City reimburses the 175 and 185 funds for at least the minimum interest those funds lose when the checks from the State are not distributed on time to compensate for the City's lack of coming through with their obligation of having the Annual Report done on time. Mr. Nelson replies that the City's position is that they do not pay interest to the 175 and 185 funds. Ms. Groome informs that this year the retirement fund suffered when the 185 fund withheld $30,000 from their check they pay to the system for their enhanced retirement benefits.

Dan Thornhill of the Coral Gables Firefighters Local 1210 appreciates the opportunity to speak to the Board. He came before the Board last year and tried to identify the problem of the 5% contribution. It has been a chronic problem that has come to a head. The State has taken the position that enough is enough and they need to resolve these issues. The only recourse the State has is to withhold the checks to the 175 and 185 funds. He explains the history of the previous contract. The City funded the "and/or" clause where firefighters can enter the DROP when they reach the Rule of 70 and/or 25 years of service. Through the collective bargaining process in their successive contract they said they will fund that benefit with their 5% contribution and now they have an experience rate because people are entering the DROP with Rule of 70 instead of having to wait 25 years of service and then enter the DROP. There becomes an impact therefore there is a cost and that is how they are able to satisfy the State's request for the 5% benefit improvement for the current bargaining agreement. When he came before the Board last year there were three issues in how to resolve the issues with the 175. One was to refund the 5% contributions like the City did with the police, two was to give an improved benefit and three was to take them to impasse and impose mandatory bargaining and get out of the 175 business. The third option wasn't a viable option but that would be a third option in all fairness. They tried to improve the benefit but from May 2004 to September 2005 the firefighters gave 5% into the pension fund and the police gave 5% into the pension fund and the State came back and said if they are going to contribute the City has to show an enhanced benefit. The police bargaining unit took the position that there was no improvement and therefore they wanted their contributions back. The City refunded the money to the police. In the same time frame the firefighters were still contributing 5% and in that time frame they did not have any enhanced benefit. They were doing what they felt was in good faith with the City through the collective bargaining process and they signed the contract. Because of the 16 month time frame where the police or firefighters did not have a pension enhancement but contributed the 5% the State has said the City needs to have a pension enhancement for that time frame or refund that money for those 16 months. The City has set a precedent and returned the contributions to the police officers. The police has signed a three-year contract and is not contributing to the pension fund because they did not feel they were going to get a pension enhancement in that contract to justify the 5% contribution. The State has brought this issue to a head and now the firefighters have an obligation to resolve it. The only resolve is the 5% contributions for that 16 month time frame be refunded to the firefighters. Then the State will feel the City is compliant and release the 175 and 185 monies.

Mr. Geraci thinks that this is something that the Commission makes a decision on and not this Board. Mr. Thornhill agrees. He was trying to enlighten the Board as to why the State is withholding the money from the 175 and 185 funds. Mr. Space states that the situation he sees with the Board is that they don't get involved in with the collective bargaining agreements. If it is something on the labor side between the unions and the City, the Board doesn't know about it and the Board attorney doesn't know about it. Then all of a sudden the pension fund has a responsibility to pay them something that they weren't involved in. Their only involvement in this whole thing is to make money with the money they have. When people come before the Board with their problem the bottom line is that this Board has never been charged with helping with anything else other than trying to make money with the money they have. Mr. Thornhill understands and as employees they appreciate the Board's effort.

Mr. Space asks for examples of enhancements that would be satisfactory to the State and firefighters. Mr. Thornhill informs that some examples would be that they can raise the multiplier and they can change the years of averaging. Some come back cost prohibitive. The State is interpreting the 5% contribution as a benefit to the City to offset the amount of money they have to put into the pension fund. His intent was to speak to the Board to inform them about what has been going on. The only resolve for that 16 month time frame is that the City has to refund that money back and the 5% contribution money is segregated outside the pension fund. It is not being invested. Mr. Nelson explains that the 5% contribution from the firefighters is going into the pension plan and is segregated as an employee contribution. It is identified on the accounting to the State and the annual financial report.

Mr. Naclerio states that the firefighters have the same 5% contribution in the prior 16 month period as they do now. He asks if the pension benefits that they pay are no different in the prior period than they are now. Mr. Thornhill answers negatively. He explains that the benefit they negotiated is the "and/or" clause in the DROP. Entrance into the DROP originally was 25 years of service and Rule of 70 and now they negotiated the "and/or" benefit which allows firefighters to enter the DROP when they reach Rule of 70. Because of the experience rate there is an impact over a period of time and there is a cost associated with it. So the firefighters' position to the State is that they can show them that there is a tangible cost associated with that benefit and they are compliers with the Statute. Where they have a problem is with the State for the previous 16 months of contributing 5% with no enhanced benefit.

Tom Zelenak of the Coral Gables Firefighters and Chairman of the 175 Board informs that he just spoke with Patricia Shoemaker and she said that paying the City's contribution up front is fine as long as it is a complete payment. The quarterly contributions come into play when the plan is not completely funded and that there is some residual and that residual has to be paid quarterly. He will get a letter to follow-up. Mr. Nelson informs that it has not been conveyed to the City. If the State wants to put it in writing the City will comply.

2. Request from Ron Cohen who represents the Coral Gables Police Officers' Retirement Trust Fund to discuss the upcoming annual report and the withholding of premium tax monies by FRS. *(Agenda Item 9).*

Ron Cohen represents the 185 Board informs that they are concerned because the money from the State is the 185 Board's only method of funding. He has a letter from the Division of Retirement dated October 8, 2007 that points out a number of issues with the Annual Report and as far as he knows those issues have not been dealt with. Chairperson Sibley informs that a letter went out to the State on November 6, 2007. Mr. Cohen points out that another issue was the $3 million contribution. He doesn't think that has been paid yet. Chairperson Sibley informs that Mr. Nelson spoke before the Board and informed them that the issue has been resolved to the State's satisfaction. The only pending issue now is the issue with the firefighter's 5% contribution and all the other issues have been resolved. Mr. Nelson can bring him up to speed as to what was discussed earlier.

Mr. Cohen points out that there is an obligation that contributions be made in a timely fashion to this Board and the actuarial report lists the interest that are paid on the contributions year in and year out. The City has had to pay the amount in of taxpayers' money $4,936,620 in interest. Those interest payments come about because of a violation of the law because the contributions are not being made timely. The law specifically sets forth when employer contributions to this plan have to be made and he thinks this Board should look into what they can do to cause the City to comply with the law. He thinks that on behalf of the taxpayer's the City should start paying this money when it is due. Mr. Naclerio asks if Mr. Cohen was in attendance when Mr. Nelson told the Board that the City funds their obligation prior to the year and they are looking for relief from the Statute that requires the City to fund quarterly. Mr. Cohen answers negatively. He states that the City does not fund the contribution prior to the year and they fund it late. If you look at the actuarial report they always have to pay interest. Mr. Space points out that they are talking about two different topics. The $20 million dollars the City funds every year the State is asking the City to fund that quarterly instead of in advance. They think they found out this morning that it is okay to fund the whole amount in advance and not do it quarterly which would benefit the fund. The issue Mr. Cohen is talking about is the $3 million that was funded in payments. Mr. Nelson has been sending $500,000 per year and that has been accruing. The Board asked Mr. Nelson if he would run the numbers on what it would cost to fund the $500,000 per year and what it would cost to fund $1 million per year to see if the City could do that. They had a long conversation that Mr. Cohen wasn't privy to. They are working at it. Mr. Cohen understands. But he has not heard of someone charging interest on a pre-payment. You pay interest on a late payment. In the most recent Actuarial Report there is a history of interest payments that total approximately $5 million. If that money is there beforehand it doesn't make sense to him that they are paying interest on it.

Mr. Naclerio asks Mr. Nelson if Mr. Cohen is talking about the interest on the deficit or if the City is not making pre-payments during the year. Mr. Nelson responds that as he stated earlier the City has been funding the annual contribution in January each year. The reason why it has been January is because they were in a calendar year prior to the actuary changing to a fiscal year prior to January 1st and any day after October 1st that is not funded there is an accrued interest rate of 7.75% on the City's contribution. That is what Mr. Cohen is talking about. Traditionally they have funded it in advance in January as opposed to October. The requirement is to fund October 1, 2007 and right now the City has not funded the $23.5 million which they are required to do. Now that the State is requiring them to fund it quarterly they will do so throughout the year. Until they do the fund will charge an accrued interest of 7.75% rate and that will raise the City's contribution. Chairperson Sibley asks if the City plans to adjust their payments so they don't get charged with interest. Mr. Nelson informs that they will start making the contributions quarterly. Mr. Cohen asks for the Board to stay on top of this.

Chairperson Sibley thinks this is an important issue to the taxpayers. With all the late penalties to the fund it is millions of dollars of taxpayer money. Mr. Naclerio states that as a taxpayers' point of view the fact that the money isn't being paid and the fund is accruing interest then the City is most likely spending that money on other things. Mr. Nelson informs that the funds are all within the City. The City is an umbrella and it is just a matter if it goes into from the general fund over into the retirement fund and who is earning the interest and at what time. That is the way you have to look at it. Mr. Space informs that the money in the general fund is making 4% and the money in the retirement fund is making around 12%. There is a pretty significant difference there. Mr. Easley thinks that they wouldn't be talking about this if the City would do things the right way in a timely fashion.

3. Approval of the Piñon issue section of the Retirement Board monthly meeting minutes for August 9, 2007. *(Agenda Item 2)*

Chairperson Sibley informs that Mr. Naclerio wanted to put this on hold at the last meeting. Mr. Naclerio agrees. He believes that the Board attorney has reviewed these minutes and is satisfied that they can include them as part of the minutes. Mr. Greenfield informs that he read over the minutes and he thinks there were some type of confusion and some typographical errors to cause confusion. Considering the fact that this is in litigation he would like for it to be as proper as possible. He thinks there is a verbatim recording of everything that was said by whoever said it and they can do one of two things. They can accept the verbatim report and make that as part of the minutes or he can sit with the Administrative Manager and go over his notes with him and she can put it in a format that is more understandable.

A motion was made by Mr. Huston and seconded by Mr. Easley to include the court reporter's verbatim minutes with the Board meeting minutes of August 9, 2007. Motion unanimously approved (8-0).

4. Approval of the Retirement Board monthly meeting minutes for October 11, 2007. *(Agenda Item 3).*

A motion was made by Mr. Huston and seconded by Mr. Goizueta approving the minutes of October 11, 2007. Motion unanimously approved (8-0).

5. Report of Administrative Manager. *(Agenda Item 4).*

A motion to accept the following items of the Administrative Manger's report without discussion was made by Mr. Goizueta and seconded by Mr. Huston.

1. For the Board's information, there was a transfer of $2,900,000.00 from the Northern Trust Cash Account for the City of Coral Gables Retirement Fund for the payment of monthly annuities and expenses and reimbursement to the City's General Fund at the end of October 2007 for the November 2007 benefit payments.

2. For the Board's information, the following Employee Contribution check was deposited into the Retirement Fund's SunTrust Bank account (fiscal year spreadsheet attached):

   - Payroll ending date September 30, 2007 in the amount of $68,451.43 was submitted for deposit on October 8, 2007.

3. For the Board's information:

   - Frank L. Williams, Jr. of the Public Service Department passed away on October 24, 2007. He retired with non-service connected disability on June 13, 1977. His benefits have ceased.
   - Pablo Garcia of the Police Department entered the DROP on November 1, 2002 and left the DROP on October 31, 2007. He received his first retirement benefit on November 1, 2007.
   - Alan Richman of the Building and Zoning Department entered the DROP on November 1, 1999 and left the DROP on October 31, 2007. He received his first retirement benefit on November 1, 2007.
   - On October 4, 2007 NCPERS Annual Membership dues for 2008 were paid in the amount of $150.00.
   - On October 4, 2007 International Foundation Annual Membership dues for 2008 were paid in the amount of $725.00.
   - On October 4, 2007 The Berwyn Group death audit for the 3rd quarter 2007 was paid in the amount of $381.60.

4. The Investment Committee meeting minutes of October 11, 2007 are attached for the Board's information.

6. Attached for the Board's information are the Statements of Pending Transactions and Assets as of September 30, 2007 from JP Morgan.

7. Attached for the Board's information are the Statements of Settled Transactions for the period of September 1, 2007 through September 30, 2007 from JP Morgan.

8. For the Board's information attached are copies of the Commission Analysis prepared by Donaldson and Company for the third quarter of 2007.

9. For the Board's information the JP Morgan Strategic Property Fund Quarterly Report ending June 30, 2007 is attached.

10. For the Board's information a brochure from Dow Jones is attached entitled "The Role of Benchmarks in Assessing Risk and Return."

11. Information regarding the Internal Revenue Code Section 415 – Benefit Limits – Final Regulations is attached for the Board's information.

12. The Northern Trust Global Securities Lending Market Report as of September 2007 is attached for the Board's information.

13. The JP Morgan Asset Management Real Estate 3rd Quarter 2007 snapshots for their Strategic Property Fund, special Situation Property Fund, U.S. Real Estate Securities Fund, Global Real Estate Securities Fund and International Real Estate Securities Fund are attached for the Board's information.

14. For the Board's information a copy of an email from JP Morgan is attached regarding an update of the infrastructure space.

15. An invitation to the Argyle Executive Forum's 2007 Leadership in the Private Capital Markets Forum in New York on November 15th is attached for the Board's information.

16. An invitation to the Financial Research Associates' Private Equity Portfolio Management conference in New York from November 14th and 15th is attached for the Board's information.

The following item of the Administrative Manager's report was discussed:

5. Attached for the Board's information are the Class Action Security Litigation summaries from Northern Trust regarding the Retirement fund's account as of October 5, 2007.

   Chairperson Sibley clarifies that they are getting money back from the class action securities. Ms. Groome confirms that they are. The money goes into the different accounts in Northern Trust. The report shows which accounts the money goes into. Chairperson Sibley asks where that money would show up on the actuarial report. Ms. Groome believes it would be under the investments.

Motion unanimously approved (8-0).

6. Employee Benefits:
(The Administrative Manager recommends approval of the following Employee Benefits.) *(Agenda Item 5).*

Retirement Benefits:

Retirement application of Randolph Walker of the Parks and Recreation Department, 16 years and 10 months, No Option, effective October 1, 2007.

RESOLUTION 3095
A RESOLUTION GRANTING NORMAL RETIREMENT BENEFITS
TO
RANDOLPH WALKER

WHEREAS, Randolph Walker Whitley has applied for retirement effective October 1, 2007 and,

WHEREAS, Randolph Walker requests to take No Option with his last working day September 28, 2007.

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 Randolph Walker retirement benefits under No Option as certified by the Actuary, the first day of every month, beginning October 1, 2007 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. Walker's retirement application was made by Mr. Goizueta and seconded by Mr. Easley. Motion unanimously approved (8-0).

DROP Benefits:

DROP application of Marianela Cardenas of the Police Department. Effective date October 1, 2007.

A motion to approve Ms. Cardenas' application for DROP Benefits was made by Mr. Goizueta and seconded by Mr. Easley. Motion unanimously approved (8-0).

DROP application of Edward Dunn of the Fire Department. Effective date November 1, 2007.

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A motion to approve Mr. Dunn's application for DROP Benefits was made by Mr. Goizueta and seconded by Mr. Space. Motion unanimously approved (8-0).

DROP application of Aaron Bosch of the Fire Department. Effective date November 1, 2007.

A motion to approve Mr. Bosch's application for DROP Benefits was made by Mr. Goizueta and seconded by Mr. Easley. Motion unanimously approved (8-0).

DROP application of Enid Miguez of the Fire Department. Effective date November 1, 2007.

A motion to approve Ms. Miguez's application for DROP Benefits was made by Mr. Goizueta and seconded by Mr. Space. Motion unanimously approved (8-0).

DROP application of Marjorie Adler of the Human Resources Department. Effective date December 1, 2007.

A motion to approve Ms. Adler's application for DROP Benefits was made by Mr. Space and seconded by Mr. Easley.

Discussion:
Mr. Goizueta asks how many years Ms. Adler has with the City. Ms. Groome responds that she has worked for the City for three years and three months. Mr. Goizueta asks if employees are supposed to be vested to get into the DROP. Ms. Groome references Retirement Ordinance 50-26 and 50-25 under definitions for Normal Retirement "the date on which the participant attains 65 years of age, irrespective of the number of years of credited service, at which time the participant shall be deemed fully vested, irrespective of the number of years of credited service." Mr. Goizueta informs that in the bargaining agreement it says only age 65 and at the beginning of the article it says you must be vested at 10 years. Ms. Groome points out that the ordinance states that once you reach age 65 you are vested. Mr. Goizueta asks for Mr. Greenfield's interpretation. Mr. Greenfield responds that the interpretation that Ms. Groome gave the Board is the correct interpretation under the ordinance. The Board operates under the ordinance and does not operate under the collective bargaining agreements. It is incumbent on the collective bargaining units if there is a change in the collective bargaining that would impact upon the ordinance and it is up to the collective bargaining unit and their council to work with the City's labor council to have the ordinance amended to include whatever they bargained for. This Board has to follow the ordinance and the ordinance that Ms. Groome has stated is what she has recommended and he stands by that.

Motion unanimously approved (8-0).

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

Application of Laura Rodriguez of the Fire Department requesting to buy back 1,149 days (3 years, 1 month, 22 days) of prior City service time.

A motion to approve Ms. Rodriguez's application for prior City service time was made by Mr. Goizueta and seconded by Mr. Space. Motion unanimously approved (8-0).

7. Disability reviews: The Administrative Manager recommends approval of the continued disability benefits for Tyra Hearns. *(Agenda Item 6).*

A motion was made by Mr. Goizueta and seconded by Mr. Huston to approve the continued disability benefits for Ms. Hearns. Motion unanimously approved (8-0).

8. Submission of bills for approval. (Administrative Manager recommends approval of the following invoices). *(Agenda Item 7).*

Stanley Holcombe and Associates invoice dated October 8, 2007 for actuarial consulting services from July 31, 2007 through September 30, 2007 in the amount of $2,465.00. This invoice is in accordance with the contract between Stanley, Holcombe & Associates and Coral Gables Retirement System signed on October 9, 2003.

A motion to accept the Stanley Holcombe and Associates invoice in the amount of $2,465.00 was made by Mr. Huston and seconded by Mr. Goizueta. Motion unanimously approved (8-0).

Merrill Lynch Consulting Services invoice dated October 19, 2007 for consulting fees from January 1, 2007 through September 30, 2007 in the amount of $90,434.78. This invoice is in accordance with the Revision to Agreement for Services which changed the Merrill Lynch Consulting Services' retainer fee to a basis point fee structure effective January 1, 2006.

A motion to accept the Merrill Lynch Consulting Services invoice in the amount of $90,434.78 was made by Mr. Goizueta and seconded by Mr. Huston. Motion unanimously approved (8-0).

9. Discussion, review and approval of the 2007 Retirement Board Annual Report (draft submitted) as mandated by the Code of Ordinances of the City of Coral Gables, Article 3 Boards, Commissions, Committees, Section 2-66 Annual Report which was due to the City Manager by October 1, 2007. *(Agenda Item 8).*

Motion to table the item until the next meeting was made by Mr. Huston and seconded by Mr. Space. Motion unanimously approved.

10. Request from retiree Jeffrey Vance to discuss the repayment of the overpayment made to his DROP account. Mr. Vance was overpaid $21,588.83 on his final DROP amount in 2002 and began paying the retirement system back $250.00 per month as of May 2003. *(Agenda Item 10).*

    A motion was made by Mr. Easley and seconded by Mr. Huston to defer this item until the next meeting. Motion unanimously approved (8-0).

11. Investment Issues. *(Agenda Item 12).*

    Troy Brown of Merrill Lynch informs that he spoke with Mr. Greenfield before the meeting regarding the indemnification clause that the City now requires. That seems to be a hang up going back and forth with the new contracts with Aletheia and Winslow Capital. They are still hopeful that this is going to happen in the near term. Those two managers are going to be replacing Santa Barbara. Santa Barbara has not been informed of their termination yet therefore they are still actively managing the money in their fund. They did complete the transition of the i-share account into the two new managers, Eagle and MD Sass, and then the S&P index fund was left in that account. The return for the whole quarter represents the i-share, the transition as well as the S&P. They had a high in the market on July 19th followed by a 10% correction. Essentially there was $50 million in that account when the market corrected. They only had $20 million in the account at the end of the quarter because that was the position. The return for the quarter is positive on a time-weighted basis but the account shows a loss because they had a loss on $50 million and subsequent gains on $20 million. At last month's Investment Committee meeting the Committee narrowed down the list of international candidates that they are going to interview. They will have all four candidates at the meeting on December 7th and those candidates are AllianceBernstein, Thornburg, Manning and Napier and NFJ.

    Mr. Brown reviews the last quarter (September 30th) investment performance. There was a gain for the quarter up $3.7 million. They had more out flow this quarter in the amount of $11 million. When you consider the volatility of the market they had a nice mild return of 2% on the S&P but it really does mask a lot of the volatility that happened. They hit that high in July then a 10% correction as a result of the sub-prime investors losing confidence and then when the Fed cut rates it was an all clear signal by the markets and equities surged. It is the reason they had positive performance. When you are drawing the amount of money they drew out coupled with the fact they did the transition some of the performance doesn't actually look good but he is happy with the rate of return of 12.8% for the fiscal year. For the fiscal year to date they have had the strongest year since 2003. They have made a lot of shifts in this portfolio and not voluntarily in every case. Like the issue with The Boston Company. This Board reacted quickly in making their decision to terminate them with two-day old information. Hopefully they will get their contract issues settled quickly. He knows they had questions regarding the new manager Aletheia but Aletheia had a 9% quarter. It is phenomenal that they are turning around the numbers they are and they seem to be continuing to show the positive results the Board saw during their interview.

Mr. Naclerio asks if the 12.8% rate of return number triggers the cost of living increase to the retirees. Mr. Nelson informs that this is the number as of September 30th but there is an issue that the State is requiring the plan to not only look at the investment return but also all the other actuarial values of the plan in order to determine whether a cost of living should be awarded. Traditionally they had to achieve a rate of return on the plan above 10% year ending September 30th in order to issue a cost of living increase for January 1st. Now the position of the State is you cannot use that one benchmark in order to grant a cost of living adjustment. You have to look at all the actuarial assumptions to see if you had an actuarial gain in the plan. For instance, inflation may be negative or the turnover of employees may be more than assumed. There are a lot of assumptions that have to be looked at in order to have an actuarial gain of the plan in order to provide a COLA instead of looking at the one actuarial investment. That is the State's position. Mr. Diaz asks who is looking into that. Mr. Nelson informs that the City administration and the State are looking into it. Chairperson Sibley asks if that is a negative on the retiree side or a positive on the retiree side. Mr. Nelson responds that it could go either way. In the past the benchmark was only looking at the 10%. You either achieved it or you didn't. Now it is looking at all the assumption rates. Some can be positive or some can be negative in order to achieve an overall actuarial value gain. He can't tell whether it would be positive or negative. Chairperson Sibley asks who is evaluating this to determine whether there is a COLA or not. Mr. Nelson replies that it is the City administration and the State.

Mr. Geraci points out for Commissioner Cabrera that the fund's fiscal year earnings went from $17 million in 2006 to $31 million in 2007.

Mr. Brown continues. When you have $11 million outflow in the quarter you tend to be on policy and that is because when Ms. Groome asks for a specific amount of money at a certain time he looks at the most recent amount available in the fund and looks at the policy and whatever amount is overweight relative to the targets is where the money comes from. They did that a couple of times during the quarter and you can see that they are pretty close to the target policy.

Mr. Brown informs that Mr. Goizueta had asked whether the policy could go higher regarding the percentage in international and if it was advisable. Right now the target is at 15% and they have the ability in the current policy to go as high as 20%. It is worth looking at whether or not they want to make a policy change and take some of the money off the table for large cap and increase international. Ms. Groome asks if the State raised international to 25%. Mr. Brown responds that it is his understanding. He doesn't recommend tactical moves because the dollar is falling and international stocks look good. If you are going to make a commitment to international you make it long term and change the target. Mr. Geraci asks Mr. Brown what his opinion is regarding the estimated investment to move a few points. Is it $25 million or $28 million? Mr. Brown responds that based on the current asset value of 10% it would be a little more than $10 million additional to move into international. Mr. Geraci asks if that would be about $15 million for each international manager. Mr. Brown answers affirmatively. He will show the Board a series of asset mixes so they can judge the increase risk/reward opportunity of making a move like that based on Merrill Lynch's forecast asset allocation model. The Board will have to judge the impact and understand the implications if they want to move forward in that direction.

Mr. Brown reports that the one year trail on the real estate investment was very strong at 18.3% which beat the benchmark of 17.3%. Since they bought the fund since the second quarter of 2006 they have a rate of 17.5%. It has been a very strong investment. Another issue they said they were going to bring was to have JP Morgan come in and talk about their global real estate. Ms. Groome informs that JP Morgan is able to come to the February meeting. Mr. Brown explains that the options before the Investment Committee were to go out and do a search and go through the interview process again or if they wanted to talk to an organization that the Board has experience with and a track record with that has been sound. He concurred that it would be best that JP Morgan come in and talk to the Board about the other investments they have to offer.

Mr. Brown continues with his report. Ending third quarter 2007 the total fund earned 1.3% versus the target of 1.9%. They had a lot of cash flow and a lot of money moving around and in a market as volatile as this was they held value pretty well considering the volatility they had going on and the amount of money they had moving around in the portfolio during the quarter. You can't fault your advisors or yourselves or timing issues with the market. The one change they made was to not have a transition valued on a Friday for trading on a Monday because there is too much going on the weekend to go against them. Sometimes these things work for you and sometimes they work against you but the moves they made will benefit the plan in the long term regardless of what happened in the short term. The fiscal year rate of return was 12.8% and the five year number was 12.3% over the trailing five years with the plan. It is impressive they had this level of return over the five year period.

Mr. Brown explains what helped out during the year to get a high rate of return. They talked about the real estate already and the international portfolio was a big boost with a return of 23.5% for fiscal year to date. That is a strong return and it is ranked in the 75% percentile relative to other international portfolios. Fifty percent of the portfolio is the ADR strategy and it doesn't have the emerging market exposure. If you look at the quarter for the EAFE up 2.2% but what you don't see the Morgan Stanley emerging market index which was up 14.3%. That is quite a difference for a single quarter. Having some of that exposure is a good idea as part of a diversified portfolio not recommending a sole emerging market manager he thinks that is a little more volatile.

Mr. Geraci thinks that this is an outstanding job. Everything seems to be working well and it didn't happen by accident. He thinks that the portfolio has some really good managing going on in it. Mr. Brown appreciates the comments. In his opinion by meeting every month they have been able to move investment issues a lot faster than if the Board met every quarter. Mr. Naclerio expresses his appreciation to Mr. Brown with the work he has done and his responses to questions. He thinks Mr. Brown's due diligence is unparalleled. He encourages Mr. Brown to bring his management to the next meeting in order to give the Board the full understanding of the SEC problem particularly as it involves other people. He is not persuaded that just because one person was named at the SEC wouldn't necessarily seem to him that only one person was involved. It could be but other people could have been involved. One of Mr. Brown's former colleagues is bidding on this Board's business for consultant and he thinks it is important to the Board to know how the situation arose and who was involved so they don't skip on their responsibilities and put themselves in the position of having something like this happening again. Mr. Brown understands that and he respects that the Board members have a fiduciary obligation and he would expect the Board members ask any questions they may have regarding the SEC situation respecting the fact that he may not have all the answers to those questions.

Mr. Brown explains that this is a developing situation with the SEC. They did write to the Board about two years ago to inform the Board that the SEC investigation was ongoing. The reason they are having this discussion today and the reason the articles are all coming out is because Merrill Lynch put it out there. When Mike Callaway received his wells notice he was pretty adamant about getting out and letting the clients know that Merrill Lynch promised their clients that if there were any developments with the SEC that they would notify them immediately. The SEC staff has raised questions about the way Merrill Lynch and Mr. Callaway disclosed the fees the clients paid, about the disclosure of the way Mr. Callaway was compensated, whether they disclosed conflicts of interest relating to their manager discussion and disclosures concerning the way they analyze managers for client consideration. The issues are relating to conflicts of interest and disclosure to compensation. His current understanding is that there have been no accusations made about the suitability of any investments or investment managers. It has to do with disclosure of compensation and disclosure of conflicts of interest. They had one specific issue with this Board that he responded to when he first took over the consulting after the previous consultant left. The Board asked him what Merrill Lynch was paid for the transitions of managers and he responded with the exact amount his office received for compensation.

Mr. Brown continues explaining the issue with the SEC. Mr. Callaway received a wells notice which said that the SEC was going to recommend to the Commission to take regulatory action against Mr. Callaway because he violated their standards. Mr. Callaway has 30 days in writing to respond back to the SEC with his own evidence as to why he didn't do the things the SEC is indicating. Then the SEC staff that did the investigation as well as the wells notice goes to the SEC Commission and the Commission makes the determination as to whether they are going to bring charges. That process from the time Mr. Callaway got the wells letter to completion takes around 90 to 180 days. Mr. Geraci asks how this all came to light. Did someone blow the whistle? Mr. Brown is not sure. The chronology dates back to May 2005 when the SEC released that White Paper on pension consulting and what you should ask your pension consultant. His understanding of that study was that they interviewed 24 major consulting firms and they went back to a number of consulting firms, Merrill Lynch included, to do additional investigation. That is his understanding as to how the whole thing came about.

Mr. Space thinks the work Mr. Brown has done for the fund is fabulous but the bottom line in his mind at this point is that someone like Mr. Callaway is the fall guy for the higher ups. Mr. Brown continues. Merrill Lynch has been in discussions with the SEC staff about discussions it raised with the firm about the firm's supervision of the pension consulting business. The SEC staff has reiterated about its concerns about the firm's supervision. Merrill Lynch took measures to correct these issues some months ago and is now in discussions with SEC staff to reach an amicable resolution relating to the historical problem. Merrill Lynch and the SEC staff are getting close to solving this problem. One of the major policies Merrill Lynch changed was going to annual billing. They made that policy change so that clients wouldn't over pay. This issue with Mr. Callaway has not been adjudicated yet. It is an accusation and a process and this is the beginning of that process.

12. Report of the Board Attorney. *(Agenda Item 11).*

Mr. Greenfield reports on the UBS/Paine Webber law suit. Based upon the suggestion of Mr. Garcia-Linares he contacted Mr. Carlson to do what ever he needed to do in order to get the judge to set the trial date they have asked for. In the meantime there have been some depositions. Don Holmes' depositions are scheduled for later this month and he believes that Mr. Holmes' deposition is the last one that UBS intends to take relative to Board members.

Mr. Greenfield informs that he has been working on the contracts for Aletheia and Winslow. He received a draft from Aletheia yesterday and it looks pretty good to him and if it passes muster with the City Attorney then they will have Aletheia's contract out of the way. There is still a problem with the Winslow contract. Winslow does not like the City's indemnification provision and made some changes and said they would agree to the indemnification if the City and the Board gave them indemnification. The City Attorney has said that the City Commission will not allow any contract to go out without having an indemnification provision.

Mr. Greenfield continues. After the Board meeting in October he wrote a letter to the City Attorney telling her of the Board's concerns relative to the release of the premium tax moneys and asking her to respond to the letter to the State dated October 8th because the State said the City failed to respond to that letter. He hasn't received a response from the City Attorney. He did speak to Julie Browning from the State and they had a lengthy conversation. Ms. Browning informed that she had to discuss this issue with her supervisor, Ms. Shoemaker, and she would get back to him. He never heard anything from the State so he called them back and spoke with Ms. Shoemaker and Ms. Browning. The outcome of the conversation was that they had never heard from the City as to this $500,000 per year pay off of the $3 million amount the City owes in contributions to the Retirement System. They said that as far as they are concerned the $3 million has to be paid but if the City could take the money they are putting in for the current year contribution and book keeping wise take $3 million and put it to the past so they are okay with the past and with that there would be no hold of the 175/185 money. However, the City will have the same problem the following year and the problem would continue to be compounded. He said if the City puts in the $500,000 per year plus interest that problem will take care of itself in six years. This process was okay with the State. They understand that there is no present retiree that is going to be deprived of any retirement income and even though they don't like it and they would like to see the whole $3 million put into the system they understand fiscal restraint and want to work with the City but no one from the City has asked them. He told this to Mr. Nelson and the matter has been resolved for this year.

Mr. Greenfield reports on the Piñon matter. It is in the court system. The City's brief is due on the 12th and the Board's brief is due on the 27th. He doesn't perceive they will have any difficulty with the time limit. Mr. Huston asks about Mr. Piñon's appeal. He is appealing the revenue neutral position, he is appealing attorneys' fees, and he is appealing the fact that he had to retire. Mr. Greenfield states that two of those issues are correct but he doesn't think that the one about him not having to retire is a major focus of the matter. It was that he did not have due process, he was not getting enough money, and that the cost neutral arrangement was not fair to him because Mr. Piñon he felt the City was more responsible than he and that he was being penalized for the City's inaction. Mr. Goizueta states that there was an issue that he wasn't able to vote at the last hearing for Piñon. Why was that? Mr. Greenfield explains that is a position Mr. Piñon has raised in the brief. Until he sees the City's brief and does more work on the Board's brief he really can't answer the question. He thinks it would be unfair to answer the question at this juncture because that is a question for the Court. The Court will resolve it one way or the other. Mr. Space asks if the appellate court rules against Piñon will this issue be over. Mr. Greenfield responds that there are further reviews that could be taken. Mr. Space states that if the Courts rule in favor of Piñon then they could end up with another hearing. Mr. Greenfield agrees that there could be another hearing or the court could direct certain things or the City could ask for a review from the Third District Court of Appeal. There are other avenues of appeal. It is hard to say until you actually see what the Court does.

13. Old Business.

Ms. Groome informs that the next meeting is for the interviews of the International Equity managers on December 7th at 8:30a.m in the Youth Center Auditorium. The workshop with the Commission has been confirmed for December 12th at 9:00am in the City Commission Chambers. The January meeting has been switched to January 24th at 8:30am and the Board will be interviewing for an independent consultant.

14. New Business.

Ms. Groome informs that JP Morgan has extended an invitation to any of the Board members to come to New York City to see how their business functions. She asks for any Board member who is interested to let her know.

Meeting adjourned at 11:26 a.m.

APPROVED

WAYNE S. SIBLEY
CHAIRPERSON

ATTEST:

KIMBERLY V. GROOME
RETIREMENT SYSTEM ADMINISTRATOR