

**MINUTES OF A JOINT EMPLOYEES' RETIREMENT BOARD
AND POLICE RETIREMENT BOARD MEETING
HELD IN THE CONFERENCE ROOM AT
CITY HALL ON TUESDAY,
JULY 26, 2005,
AT 1:30 P.M.**

I. ROLL CALL: 1:30 PM

A. Employees' Retirement Board:

The Vice Chair called the meeting to order at 1:43 p.m.

Trustees present from the Employees' Retirement Board were Valerie Hurley (Vice Chair), Finance Director Anne Costello, Robert Lepa, and Robert Kahant. Absent was Mayor Marc J. Drautz (Chairman). Also present were Board Attorney Robert Sugarman, Sugarman & Susskind and Recording Secretary Evanna Stephenson, City Clerk's Office.

B. Police Retirement Board:

The Vice Chair called the meeting to order at 1:43 p.m.

Trustees present from the Police Retirement Board were Lt. Kenneth White (Vice Chair), Finance Director Anne Costello, and Officer Mark Bouchard. Absent was Mayor Marc J. Drautz (Chairman). One Board vacancy. Also present were Board Attorney Robert Sugarman, Sugarman & Susskind and Recording Secretary Evanna Stephenson, City Clerk's Office.

II. ADDITIONS/DELETIONS/REORDERING:

A. Employees' Retirement Board:

- 1. ADD NB-A-4, Thomas Ferguson, Cemetery, requests vested retirement based on the Rule of 10-Year Vesting, as set forth in Section 16-33(b) of the Employees' Pension Code, to be effective July 30, 2005**
- 2. ADD NB-A-5, Robert Strickland, Pool & Beach, requests regular retirement based on the Rule of 20-Years and Out, to be effective as of February 21, 2005**

Action: Motion made by Mr. Lepa and seconded by Mr. Kahant to approve the agenda, as amended.

Vote: Voice vote showed: AYES: Ms. Hurley, Ms. Costello, Mr. Lepa, and Mr. Kahant. NAYS: None.

B. Police Retirement Board:

None.

C. Employees' and Police Retirement Boards:

CONSENSUS - Reorder NB-C-1 and NB-C-2 to be discussed first.

CONSENSUS - Reorder UB-C-2 and NB-C-3 to be discussed following NB-C-1 and NB-C-3.

(IV. NEW BUSINESS:)

(C. Employees' and Police Retirement Boards:)

(1.) Larry Cole, Merrill Lynch, to review summary reports for quarter ending March 31, 2005

As of March 31, 2005, the Employees' fund had a total market value of \$66,041,230 including accrued income. For the quarter ended March 31st, the fund earned -\$632,293 and paid out \$4,997 in net distributions for a total decrease in value of \$637,290 from the previous quarter end.

61.1% of the fund was invested in equities including the international and mid cap equity portfolios, 37.0% in bonds and 1.9% in cash and equivalents. Allocation to stocks were more aggressive than the median fund in the balanced fund sample, which had 54.7% of its assets invested in stocks.

The fund earned a -1.0% return, which ranked in the top 48% of other public balanced funds in the sample. The target index was comprised of 50% S&P 500, 10% MSCI-EAFE and 40% Merrill Lynch Government/Corporate Index which returned -1.3%.

The fund was down less than the target index by a 0.3% margin and ranked slightly above average. The domestic equity portfolio returned -2.0% and beat the S&P 500 of -2.2%. The international equity portfolio provided a strong relative return of 0.8% for the quarter, and outpaced the MSCI-EAFE of -0.1%. The bond portfolio, managed by Richmond Capital, returned -0.4% and was down less than the Merrill Lynch Government/Corporate bond index of -0.6%.

Davis Hamilton's growth equity portfolio return of -2.8% (including cash) lagged the S&P 500 return of -2.2% and the S&P/BARRA Growth index return of -1.9%. Davis Hamilton earned significant gains in the materials sector in which only 6.0% of the portfolio was allocated. A small allocation to energy was also helpful.

The Lazard Asset Management equity portfolio returned -2.1% (including cash) for the quarter. The S&P/BARRA Value index posted a -2.4% return for the quarter. Lazard's most heavily weighted sector was the financial sector with 27.8% of the portfolio allocated.

The international portfolio return of 0.8% beat the -0.1% return of the MSCI-EAFE index. EuroPacific and Oakmark funds returned 0.0% and 2.1% respectively. In the small/mid cap portfolio, the Seligman Capital Fund, with a mid cap growth orientation returned -0.3% vs. -1.7% for the Russell Mid Cap Growth index while the Franklin Balance Sheet Fund posted a slightly strong 0.0% for the quarter vs. 0.8% for the Russell Mid Cap Value index.

As of March 31, 2005, the Police fund had a total market value of \$21,181,080 including accrued income. For the quarter ended March 31st, the fund earned -\$191,885 and received \$24,715 in net contributions for a total decrease in value of \$167,170 from the previous quarter end.

62.0% of the fund was invested in equities including the international and mid cap equity portfolios, 36.0% in bonds and 2.0% in cash and equivalents. Allocation to stocks was more aggressive than the median fund in balanced fund sample, which had 54.7% of its assets invested in stocks.

The fund earned a -0.9% return, which ranked in the top 45% of the public balanced fund sample. The target index was comprised of 50% S&P, 10% MSCI-EAFE and 40% Merrill Lynch Government/Corporate Index which returned -1.3%.

The fund exceeded the target index by a 0.4% margin and ranked slightly above average. The domestic equity portfolio returned -1.8% and beat the S&P 500 of -2.2%. The international equity portfolio provided a strong relative return of 0.9% for the quarter, and easily beat the MSCI-EAFE of -0.1%. The bond portfolio, managed by Richmond Capital, returned -0.4% and tracked closely to the Merrill Lynch Government/Corporate bond index of -0.6%.

Davis Hamilton's growth equity portfolio return of -2.5% (including cash) lagged the S&P 500 return of -2.2% and the S&P/BARRA Growth index return of -1.9%. Davis Hamilton earned significant gains in the materials sector in which only 6.0% of the portfolio was allocated. A small allocation to energy was also helpful.

The Lazard Asset Management equity portfolio returned -2.1% (including cash) for the quarter. The S&P/BARRA Value index posted a -2.4% return for the quarter. Lazard's most heavily weighted sector was the financial sector with 27.8% of the portfolio allocated.

The international portfolio return of 0.9% beat the -0.1% return of the MSCI-EAFE index. EuroPacific and Oakmark funds returned 0.0% and 2.1% respectively. In the small/mid cap portfolio, the Seligman Capital Fund, with a mid cap growth orientation returned -0.3% vs. -1.7% for the Russell Mid Cap Growth index while the Franklin Balance Sheet posted a slightly stronger 0.0% for the quarter vs. 0.8% for the Russell Mid Cap Value index.

(2.) Jack Hamilton, Davis Hamilton Jackson & Associates, to review summary reports for quarter ending June 30, 2005

The Employees' Fund showed: a change in the portfolio value as of August 31, 1992 in the amount of \$16,975,455.80; accrued interest in the amount of \$81,713.18; net additions/withdrawals in the amount of \$-37,356,228.57; realized gains/losses in the amount of \$20,095,059.75; unrealized gains/losses in the amount of \$1,969,465.82; income received in the amount of \$8,944,365.02; change in accrued interest in the amount of \$-81,713.18; and portfolio value on June 30, 2005 was \$10,628,117.89.

The Police Fund showed: a change in the portfolio value on July 31, 1993 in the amount of \$4,925,188.40; accrued interest in the amount of \$25,980.61; net additions/withdrawals in the amount of \$-8,573,912.63;

realized gains/losses in the amount of \$4,456,509.10; unrealized gains/losses in the amount of \$571,747.99; income received in the amount of \$2,227,310.09; change in accrued interest in the amount of \$-25,980.61; and portfolio value on June 30, 2005 was \$3,606,842.97.

(III. UNFINISHED BUSINESS:)

(C. Employees' and Police Retirement Boards:)

(2.) Discuss information forwarded to Ernst & Young for pension fund audit

Ms. Costello explained that Ernst & Young declined to audit the pension fund without giving a reason.

The Board Attorney said accusations have been made and the Board needs to look into them. He explained the Board could invite Mr. Siedle to attend another meeting, interview other auditing firms, or do whatever the Board deems necessary. He recommended using a specialized forensic auditor if the Board was interested in an audit.

Ms. Hurley said Mr. Siedle had approached a Commissioner, and at the last meeting, Commissioner Egly said the City could have a free audit to see if the pension plan was paying too much in management fees. She said the Commission had a consensus to hear what Mr. Siedle had to say, and that Lt. White had spoken with Commissioner Egly and she had spoken with other Commissioners and they declined to invite Mr. Siedle to speak at the next meeting.

Lt. White said Mr. Siedle did not have any evidence before and that an audit could be very costly.

Mr. Lepa recommended that the Board schedule an audit with another firm and suggested using a local firm, Rodderick Moe, 101 North "J" Street.

The Board Attorney said he would draft letters to the firms and request proposals.

(IV. NEW BUSINESS:)

(C. Employees' and Police Retirement Boards:)

(3.) Commission Recapture Agreements with The Citation Group of Merrill, Lynch, Pierce, Fenner & Smith, Inc.

The Board Attorney explained he had reviewed the agreement sent to him by the Citation Group, said it was unacceptable because of the language, and the language was amended to reflect a 70% commission recapture agreement with Lynch, Jones & Ryan and consistent with the market rate.

Ms. Hurley asked if the Board wanted to include Donaldson & Company in this decision.

The Board Attorney said the Board could include them.

(4.) Letter from Gregory Philipps, Pension Fund Evaluations, Inc., regarding Commission Recapture and Commission Recapture Agreements

The Board Attorney said the plans need to get 70% commission recapture to be consistent with the market and best execution.

Officer Bouchard suggested adding both Lynch, Jones & Ryan and Donaldson & Company to the list.

Action: Motion made by Mr. Lepa and seconded by Ms. Costello to approve adding Lynch, Jones & Ryan and Donaldson & Company to the list for commission recapture.

Vote: Voice vote showed: AYES: Ms. Hurley, Ms. Costello, Mr. Lepa, and Mr. Kahant. NAYS: None.

Action: Motion made by Officer Bouchard and seconded by Ms. Costello to approve adding Lynch, Jones & Ryan and Donaldson & Company to the list for commission recapture.

Vote: Voice vote showed: AYES: Lt. White, Ms. Costello, and Officer Bouchard. NAYS: None.

III. UNFINISHED BUSINESS:

A. Employees' Retirement Board:

None.

B. Police Retirement Board:

1. Discuss the resignation of Dave Vespo and possible lack of a quorum

Lt. White said his main concern was lack of a quorum and asked how the vacancy would be filled.

Ms. Hurley explained the City Clerk's Office accepts applications for board vacancies throughout the year and the Commission normally interviews candidates in June. She said, at the meeting this year, the Commission discussed creating a Recreation Board, and if this board was created, the City would need to re-advertise and the advertisement may possible include other vacancies as well. She said, otherwise, the Board would fill the position in June.

The Board Attorney said the Board needs to ask the Commission to fill the vacancy as soon as possible.

Lt. White asked if the Board could change the ordinance to replace the Mayor or name a designee.

The Board Attorney explained that if the ordinance was amended, it had to match the State's requirement and the ordinance regulating the Board's makeup was grandfathered in since 1999.

CONSENSUS – direct Lt. White to speak with the Mayor and City Manager and discuss at the next meeting.

C. Employees' and Police Retirement Boards:

1. Discuss the Deferred Retirement Option Plan (DROP)

At 2:50 p.m., the Board took a break.

At 3:00 p.m., the Board resumed the meeting.

The Board Attorney explained the Board would discuss whether DROP participants were forced to roll their money out of the fund within 90 days after termination of employment and whether participants who chose the fixed rate option were guaranteed 7% interest. He said the Board could change the interest rate, but cannot change it retroactively because

participants made a decision to go from one fund into the other based on collecting 7%. He explained there were several things the Board could do for future participants: rates could be changed to something else, rates could be changed to a variable rate and specify what it is tied to, or allow participants to get back into the fund rate.

He said the second question dealt with how long participants were locked in and said it appeared that the Board agreed that participants have to roll their money out after 90 days because it was in the best interest of the fund not to have that liability.

Lt. White asked if the Board could change the interest rate for DROP participants who were already locked in a rate and how that would affect them.

Ms. Hurley said the Board needs to address readjusting the interest rate because Board Attorney Ken Harrison advised the Board that the 7% interest rate was too high.

The Board Attorney said the interest rate was too high only compared to what the fund had earned in the short term and that the interest rate for the long term was fair. He suggested tying it to an index that could be found in the newspaper and said the State had a 6½% interest rate.

CONSENSUS - DROP participants who were already in the 7% fixed rate are allowed to continue earning 7% interest for a 5-year period and if the Board changes the fixed rate, only new DROP participants will be affected.

The next item discussed was whether participants have to roll their money out of the fund 90 days after they terminate employment.

Ms. Hurley said according to the January 22, 2003 minutes and further enforced by the December 4, 2002 minutes, the Board agreed to force all DROP participants to roll their money out of the fund 90 days after termination.

Lt. White agreed that was the right thing to do for the fund and asked if that was considered a benefit?

The Board Attorney said it was a Board procedure that requires DROP participants to roll their money out of the fund 90 days after termination. He advised the Board in 2003 and now again to have participants roll

their money out of the fund, said a motion was not needed at this time because the motion was made in 2003, the procedure needs to be enforced, participants need to be notified that they will need to roll their money out of the fund within the next month or so, and the administrator needs to implement the changes.

The Board Attorney's opinion was as follows: (1) for participants who were already in the fixed rate at 7%, they will continue earning 7% for a 5-year period; (2) for participants who have left the City and left their money in the fund, they will need to roll their money out of the fund within 90 days, (3) for participants who have been gone for more than 90 days, they will be given a couple of months to roll their money out of the fund; and (4) if the Boards wants to change the 7% fixed rate, the Board can do a motion to change it for new DROP participants.

Ms. Hurley reminded the Board Attorney that the DROP application needed to be amended.

The Board Attorney said he would amend the DROP application and submit it to the Board at the next meeting.

Connelly Thomas, a DROP participant who has terminated employment with the City, but has left his money in the fund, addressed the Board. He asked when his money in the fund would begin earning interest again and when he has to roll his money out of the fund.

At 3:20 p.m., Mr. Lepa took a short break.

At 3:30 p.m., Mr. Lepa returned to the meeting.

The Board Attorney explained steps that need to be taken: for participants who have terminated employment with the City and left their money in the fund for more than 90 days, they will be notified by a letter; they will be paid interest on their money from the time they left until the time they do a rollover; and they will be given an appropriate period of time (60 – 90 days) to make a choice to roll their money out of the fund.

CONSENSUS - give DROP participants who have left employment with the City, but have left their money in the fund until September 30, 2005 to roll their money out of the fund.

The Board Attorney recommended asking Merrill Lynch for an index that could be found in the newspaper or on the internet.

Ms. Hurley asked if everyone was agreeable to the variable rate or did the Board just want to lower fixed rate.

Lt. White said he did not want to change rate and asked why we wanted to change it.

Ms. Hurley explained that the Board Attorney had advised us to change it.

Mr. Lepa recommended a variable rate readjusted once a year.

Action: Motion made by Mr. Lepa was for all future DROP participants to have a fixed rate tied to an index or percentage with details to come from Merrill Lynch as to the best index and how much of a plus side to that index we should have.

Motion died for lack of a second.

Mike Thew said there was discussion regarding liability to fund if DROP participants were allowed to leave their money in the fund, but no one mentioned participants who were still in the DROP after 5 years and their money was not earning any interest.

(IV. NEW BUSINESS:)

(B. Police Retirement Board:)

(1.) Results from Judge and Clerk to conduct an election for Police member to serve on the Board for a two-year term to expire August 1, 2007 (Mark Bouchard's term expires 08-01-05)

The Board Attorney explained there has to be another election because DROP participants were considered retired by the State, DROP participants cannot vote at elections, and said Judy Fleming cannot vote on Police elections because she was not a sworn officer. He said his opinion was based on State law which trumps local law; this opinion applies only to Police Officers; and if you enter the DROP while serving on the Board, you may complete your term, but cannot get re-elected to the Board.

Action: Motion made by Ms. Costello and seconded by Officer Bouchard, to schedule an election for August 1 – 4, 2005, with votes being counted and certified on August 5, 2005, and appoint Sgt. Dan Boland as Judge and Maria Kahn as Clerk to conduct another election for a member to serve on the Police Board for a two-year term to expire August 1, 2007 (Mark Bouchard's term expires 08-01-05).

Vote: Voice vote showed: AYES: Lt. White, Ms. Costello, and Officer Bouchard. NAYS: None.

2. Discuss information forwarded to Ernst & Young for pension fund audit

Discussed earlier in the meeting.

IV. NEW BUSINESS:

A. Employees' Retirement Board:

1. Daniel Derringer, Water Systems Supervisor, requests retirement based on the Rule of 20-Years and Out, to be effective February 17, 2005

Action: Motion made by Mr. Lepa and seconded by Mr. Kahant, to grant with regret, Daniel Derringer's request for regular retirement based on the Rule of 20-Years and Out, to be effective February 17, 2005.

Vote: Voice vote showed: AYES: Ms. Hurley, Ms. Costello, Mr. Lepa, and Mr. Kahant. NAYS: None.

2. Benjamin Chapman, Waste Removal, requests retirement based on the Rule of 20-Years and Out, to be effective July 16, 2005

Action: Motion made by Mr. Lepa and seconded by Ms. Costello, to grant with regret, Benjamin Chapman's request for regular retirement based on the Rule of 20-Years and Out, to be effective July 16, 2005.

Vote: Voice vote showed: AYES: Ms. Hurley, Ms. Costello, Mr. Lepa, and Mr. Kahant. NAYS: None.

- 3. Memo regarding the cancellation of an election for an Employee member to serve on the Board for a three-year term to expire August 1, 2008 (Valerie Hurley's term expires 08-01-05)**

Action: Motion made by Mr. Lepa and seconded by Mr. Kahant, to accept the results for reappointment and seat Valerie Hurley for a three-year term to expire August 1, 2008.

Vote: Voice vote showed: AYES: Ms. Hurley, Ms. Costello, Mr. Lepa, and Mr. Kahant. NAYS: None.

- 4. Thomas Ferguson, Cemetery, requests vested retirement based on the Rule of 10-Year Vesting, as set forth in Section 16-33(b) of the Employees' Pension Code, to be effective July 30, 2005**

Action: Motion made by Mr. Lepa and seconded by Ms. Costello, to grant with regret, Thomas Ferguson's request for retirement based on the Rule of 10-Year Vesting, as set forth in Section 16-33(b) of the Employees' Pension Code, to be effective July 30, 2005.

Vote: Voice vote showed: AYES: Ms. Hurley, Ms. Costello, Mr. Lepa, and Mr. Kahant. NAYS: None.

- 5. Robert Strickland, Pool & Beach, requests regular retirement based on the Rule of 20-Years and Out, to be effective as of February 21, 2005**

Action: Motion made by Mr. Lepa and seconded by Mr. Kahant, to grant with regret, Robert Strickland's request for regular retirement based on the Rule of 20-Years and Out, to be effective February 21, 2005.

Vote: Voice vote showed: AYES: Ms. Hurley, Ms. Costello, Mr. Lepa, and Mr. Kahant. NAYS: None.

B. Police Retirement Board:

- 1. Results from Judge and Clerk to conduct an election for Police member to serve on the Board for a two-year term to expire August 1, 2007 (Mark Bouchard's term expires 08-01-05)**

Discussed earlier in the meeting.

C. Employees' and Police Retirement Boards:

1. **Larry Cole, Merrill Lynch, to review summary reports for quarter ending March 31, 2005**

Discussed earlier in the meeting.

2. **Jack Hamilton, Davis Hamilton Jackson & Associates, to review summary reports for quarter ending June 30, 2005**

Discussed earlier in the meeting.

3. **Commission Recapture Agreements with The Citation Group of Merrill, Lynch, Pierce, Fenner & Smith, Inc.**

Discussed earlier in the meeting.

4. **Letter from Gregory Philipps, Pension Fund Evaluations, Inc., regarding Commission Recapture and Commission Recapture Agreements**

Discussed earlier in the meeting.

V. CONSENT AGENDA:

A. Employees' Retirement Board:

1. **Authorize payment of invoice from Sugarman & Susskind, dated July 7, 2005, in amount of \$2,083.74**
2. **Authorize payment of invoice from Gabriel, Roeder, Smith & Company, dated June 30, 2005, in amount of \$3,092 for preparation of 10/01/04 Actuarial Valuation Report (\$2,794); total charges to date for this project equal \$4,927 and review of proposed ordinance and 06/13/05 opinion letter (\$298)**
3. **Authorize payment of invoice from Richmond Capital, in amount of \$18,528 for advisory fees for quarter ending June 30, 2005**

Action: Motion made by Mr. Lepa and seconded by Ms. Costello to approve Consent (A) in its entirety, as presented.

Vote: Voice vote showed: AYES: Ms. Hurley, Ms. Costello, Mr. Lepa, and Mr. Kahant. NAYS: None.

B. Police Retirement Board:

1. **Authorize payment of invoice from Sugarman & Susskind, dated July 7, 2005, in amount of \$3,125.60**
2. **Authorize payment of invoice from Gabriel, Roeder, Smith & Company, dated June 30, 2005, in amount of \$1,891 for preparation of 10/01/04 Actuarial Valuation Report; total charges to date for this project equal \$3,501**
3. **Authorize payment of invoice from Richmond Capital, in amount of \$5,662 for advisory fees for quarter ending June 30, 2005**

Action: Motion made by Officer Bouchard and seconded by Ms. Costello to approve Consent (B) in its entirety, as presented.

Vote: Voice vote showed: AYES: Lt. White, Ms. Costello, and Officer Bouchard. NAYS: None.

C. Employees' and Police Retirement Boards:

1. **Approve minutes of May 24, 2005, joint meeting, as presented**
2. **Ratify refunds of pension contributions for as reported by Finance Department**

Employees' Pension Fund:

Checks Disbursed 05-31-05

David Baker, Building Maintenance, 30 Days, \$98.28, separated April 5, 2005

Jennifer Goldston, Pool & Beach, 2 Years/10 Months/19 Days, \$2,602.51, separated April 22, 2005

Monte Graham, Waste, 2 Months/4 Days, \$235.12, separated April 25, 2005

William Harrington, Utilities T&D, 4 Years/6 Months/6 Days, \$14,984.44, separated May 6, 2005

Erick Pleitez, Parks – Public Works, 11 Months/4 Days, \$1,836.31, separated April 21, 2005

Checks Disbursed 06-30-05

Walter Riffe, Garage, 1 Year/4 Days, \$2,679.88, separated May 21, 2005

Andrea Stanwick, Finance, 9 Months/15 Days, \$3,063.76, separated July 14, 2004

Sylvia Tosi, Recreation, 7 Months/2 Days, \$801.37, separated May 13, 2005

Sylvain Villeneuve, Sewer Pumping, 3 Years/6 Months, \$9,193.23, separated April 22, 2005

Police' Pension Fund:

Checks Disbursed 06-30-05

Adam Born, Police, 3 Months/12 Days, \$633.01, separated May 12, 2005

Jose Pina, Police, 1 Year/1 Month/7 Days, \$3,530.23, separated June 10, 2005

Donna Venezia, Police, 4 Years/1 Month/29 Days, \$6,118.89, separated May 31, 2005

Action: Motion made by Ms. Costello and seconded by Mr. Lepa to approve Consent (C) in its entirety, as presented.

Vote: Voice vote showed: AYES: Ms. Hurley, Ms. Costello, Mr. Lepa, and Mr. Kahant. NAYS: None.

Action: Motion made by Officer Bouchard and seconded by Ms. Costello to approve Consent (C) in its entirety, as presented.

Vote: Voice vote showed: AYES: Lt. White, Ms. Costello, and Officer Bouchard.
NAYS: None.

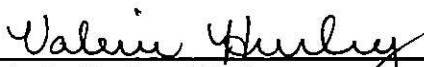
D. Board Attorney's Report:

The Board Attorney gave a brief client updated regarding Merrill Lynch.

VI. ADJOURNMENT:

The meeting adjourned at 4:00 p.m.

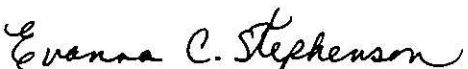
MINUTES APPROVED: 8-23-05



Valerie Hurley, Chairman
Employees' Retirement Board



Kenneth White, Chairman
Police Retirement Board



Evanna Stephenson, Recording Secretary
Employees' & Police Retirement Boards

Minutes transcribed by: Evanna C. Stephenson, City Clerk's Office.

A tape recording of this meeting will be available in the Office of the City Clerk for two years after approval of these minutes.