

**MINUTES OF A JOINT EMPLOYEES' RETIREMENT BOARD
AND POLICE RETIREMENT BOARD MEETING
HELD IN THE CONFERENCE ROOM AT CITY HALL ON TUESDAY,
February 26, 2008 at 2:00 PM**

I. ROLL CALL: 2:03 PM

A. Employees' Retirement Board:

The meeting was called to order at 2:03 PM.

Those persons present included:

Trustees: Valerie Hurley, Chair
Robert Lepa, Vice-Chair
Mayor Jeff Clemens
Robert Kahant

Others: Ken Harrison, Sugarman & Susskind
J Scott Baur, Pension Resource Center
Trevor Smallwood, Merrill Lynch
Members of Public

B. Police Retirement Board:

The meeting was called to order at 2:03 PM.

Those persons present included:

Trustees: Lt. Kenneth White, Chair
Sgt. Randy Collier, Vice-Chair
Mayor Jeff Clemens

Others: Ken Harrison, Sugarman & Susskind
J Scott Baur, Pension Resource Center
Trevor Smallwood, Merrill Lynch
Members of Public

II. ADDITIONS/DELETIONS/REORDERING:

A. Employees' Retirement Board:

No additions or deletions to the Agenda were made for the Employees' Retirement Board.

B. Police Retirement Board:

No additions or deletions to the Agenda were made for the Police Retirement Board.

C. Employees' and Police Retirement Boards:

(Added) Consent Agenda, Item A-1 – Invoice for Sugarman Susskind

(Added) Consent Agenda, Item A-2 – Fiduciary Liability Insurance Renewal

The Investment Consultant Report by Merrill Lynch was moved to the beginning of the Agenda.

Action: A motion was made and seconded to approve the Agenda as amended.

Vote: Voice vote showed: AYES: Unanimous. NAYS: None.

IV. NEW BUSINESS:

A. Employees' Retirement Board:

B. Police Retirement Board:

Merrill Lynch: Quarterly Performance Report:

Trevor Smallwood, Vice- President of Merrill Lynch present for the Callaway Group, provided the quarterly investment report. Mr. Smallwood explained that Troy Brown had a conflict to attend the meeting. He also reported that Mike Callaway received a Wells Notice from the SEC, a notification that charges are pending against an individual. Mr. Smallwood stated that Mike Callaway has 90 days to respond to the notice. He also indicated that he expects the charges brought by the SEC to become public by the end of March. Mike Callaway has already responded back to the SEC.

Mr. Smallwood commented on the volatility in the market in the 4th calendar quarter. He reported that, with rising prices and many other issues, the market has begun to question whether the economy has entered a recession. The S&P 500, along with other market indices with positive returns for 2007, turned negative for the quarter. Investors, avoiding uncertainty in the market, moved assets to higher quality issues. Robert Lepa requested that the quarterly investment report include 10-year performance numbers for the investment managers.

The Employees' Retirement System had returns of 0.1% for the quarter compared to returns of -0.6% for the corresponding benchmark with assets of \$76,671,140 as of December 31, 2007. The quarterly returns ranked in the top 35th percentile of the peer manager universe. The Employees' Retirement System had 49.9% of assets invested in domestic equities as of December 31, 2007, 11% invested in international equities, 36.4% in bonds, and 2.7% in cash. The Police Retirement System had returns of 0.1% for the quarter compared to returns of -0.6% for the corresponding benchmark with assets of \$25,244,130 as of December 31, 2007. The quarterly returns ranked in the top 36th percentile of the peer manager universe. The Police Retirement System had 50% of assets invested in domestic equities as of December 31, 2007, 11.1% invested in international equities, 36.4% in bonds, and 2.5% in cash.

Mr. Smallwood reviewed the performance of the individual investment managers. Robert Lepa stated that the Board had previously requested information on replacement managers for Oakmark and Franklin. Mr. Lepa noted that the Board had also been watching the performance of Davis Hamilton Jackson as well. Mr. Smallwood responded that Troy Brown would provide information to the Board regarding replacement managers.

Mr. Smallwood reported that the plans earned returns similar to the benchmark historically with less risk. He then reviewed the compliance of the investment portfolios with the Investment Policy. The investments complied with the Policy in all respects

except the returns for 5 years failed to match the objective of the plans. Mr. Smallwood presented a summary of investment management and consulting fees for the quarter. Mr. Smallwood concluded by noting that Merrill Lynch sees the economy slipping into a recession, with a return to growth by the second half of the calendar year. He stated that the presidential election creates additional uncertainty for the market in the shorter term.

The Board discussed the need for information in additional investment managers. Mr. Smallwood will provide Morningstar summary reports for the Europacific Growth and Oakmark mutual funds.

Action: A motion was made and seconded to direct Merrill Lynch to complete investment manager searches for possible replacements for Oakmark, Franklin, and Davis Hamilton Jackson.

Vote: Voice vote showed: AYES: Unanimous. NAYS: None.

III. UNFINISHED BUSINESS:

A. Employees' Retirement Board:

1. Stipends

The Board discussed the inclusion of stipends as pensionable earnings for the calculation of benefits. Mr. Harrison clarified that a stipend paid as part of the salary for a member should be included for pension calculations, while stipends paid as a reimbursement should not. Mr. Harrison stated that case law also supports this position.

Action: A motion was made and seconded to deny the request by a member to include a stipend paid as a reimbursement as earnings in the calculation of pension benefits.

Vote: Voice vote showed: AYES: Unanimous. NAYS: None.

B. Police Retirement Board:

1. Actuarial Study

Chairman Ken White noted that the Board received the actuarial study completed by Steve Palmquist for the merger of the Police Department with the County Sheriff Department. The Board received and filed the study.

Action: A motion was made and seconded to forward the study to the City for consideration.

Vote: Voice vote showed: AYES: Unanimous. NAYS: None.

C. Employees' and Police Retirement Boards:

1. Definition of Pensionable Earnings

Mayor Clemens moved to table the discussion on the definition of pensionable earnings to the March meeting.

2. Recalculation of Benefits

Ken Harrison warned the Trustees that the City should not continue to act unilaterally to modify pension benefit payments. He stated that the authority to approve pensions rests solely with the Boards. The Trustees discussed the changes to the pension benefit for one retired member due to the inclusion of severance pay in the original benefit calculation.

Mayor Clemens suggested that the Board should discuss the proper way to handle changes to benefits with discussion on the benefit recalculations. Ken Harrison recommended that the administrator should continue to pay the same benefit amounts from January until the Board can review the matter of the benefit recalculations in greater detail. The Boards briefly discussed an issue over a payroll correction for another member that recently entered the DROP.

The members in the DROP have not received statements of their accounts since June 2007. Mr. Baur reported that the Finance Department chose not to send updated DROP statements with potentially incorrect monthly benefit amounts. Mr. Lepa stated that the Boards should provide statements to the affected members as soon as possible, or some other communication in the interim.

Action: A motion was made and seconded to direct the administrator to provide a notice to members in the DROP regarding the delay in the quarterly statements, with an explanation of the expectations that the members should have going forward.

Vote: Voice vote showed: AYES: Unanimous. NAYS: None.

The Board requested a report from the Finance Department to update the Trustees on the recalculation of pension benefits for retired members. The Trustees requested a status report on how much is done regarding the recalculation of benefits, how long the City should take to complete the calculations, which pension benefits were recalculated and/ or reduced to date, and when the Finance Department expects to transmit payroll to the new administrator for the active members of the plans.

Mary Lindsey, present as a member of the public, expressed concern that staff in the City had a meeting not open to the public to discuss the issues. She stated that the concerns over the pensions might go beyond staff issues at the City. Ken Harrison discussed the requirements for public meetings and the differences between the Trustees and staff. He recommended that staff meet as necessary to expedite the resolution of the issues with the benefit calculations and transition of data.

IV. NEW BUSINESS:

A. Employees' Retirement Board:

B. Police Retirement Board:

The separate Boards had no items to discuss for New Business, since Merrill Lynch presented the quarterly investment performance report at the beginning of the meeting.

C. Employees' and Police Retirement Boards:

1. RFP Investment Consultant

Ken Harrison updated the Boards on the Request for Proposal for Investment Consulting Services, sent to 25 different firms. The RFP had a response deadline of March 4. The Trustees discussed that Larry Cole, formerly with Merrill Lynch, moved to Burgess Chambers & Associates, another investment consulting firm. The administrator will summarize the responses to the RFP. Robert Lepa disclosed that he is now employed by Wachovia, in the case that Wachovia or any subsidiary responds to the RFP. The Trustees discussed having a workshop of a committee to initially consider the responses to the Request for Proposal.

Action: A motion was made and seconded for a committee consisting of the Mayor, Trustee Robert Lepa, and Chairman Ken White to consider the proposals for investment consulting services. The workshop date will be established later.

Vote: Voice vote showed: AYES: Unanimous. NAYS: None.

2. Florida Investment Act

Ken Harrison reported that the City has not adopted the Florida Investment Act. He explained that the state adopted a mandate to divest from investments in companies that do business in Sudan and Iran. The statute does not require that local municipalities or pension boards comply. The Trustees discussed whether the Boards should limit the investments by the current managers. Since the Boards use commingled products to obtain international diversification in the portfolio, the guidelines would be very difficult to implement for these investments.

Action: A motion was made and seconded to receive and file the information regarding the Florida Investment Act.

Vote: Voice vote showed: AYES: Unanimous. NAYS: None.

3. Member Application Procedures

The Trustees considered a draft memo prepared by the City Finance Department outlining procedures for processing of benefit applications received from members of the plans. The Trustees discussed the procedures and directed the administrator to accept applications and answer questions directly for members of the plans. The Mayor suggested that the Boards should hear from the appropriate individuals before acting on the procedures.

Action: A motion was made and seconded to table action regarding the memo outlining procedures for processing applications for benefits until the March meeting, with the

administrator to respond to any inquiries from the members in the interim..

Vote: Voice vote showed: AYES: Unanimous. NAYS: None.

4. Travel Policy

The Boards received a memo from the City advising that the Trustees cannot adopt their own travel expense reimbursement policy. Ken Harrison advised that he already addressed the matter with the City Attorney and stated that the Boards could adopt their own travel policy. A motion was made and seconded by the Employees' Retirement Board to receive and file the memo from the City regarding the travel expense policy. A like motion was made for the Police Retirement Board but died for lack of a second.

Ken Harrison explained that that the Boards requested his opinion regarding the travel policy. He advised that FL Statute 112 allows the Boards to adopt a separate travel policy. He noted that the process could become very cumbersome to have the City review and approve Board related travel. Mayor Clemens responded that all City Boards should adhere to the same policy. Mr. Baur suggested that the Board could adopt the same reimbursement amounts as provided by the City while the approvals for travel reimbursements could come from the Boards. The Trustees directed the administrator to add the item to the next meeting agenda for further consideration.

5. Benefit Applications

Mr. Baur advised that applications for benefits continued to go to the City until his firm had the necessary data to process the applications directly. He therefore had not received any new applications for benefits from the members. The Board requested that the administrator should receive and process applications for benefits from the members as soon as possible.

V. CONSENT AGENDA:

The Trustees directed the administrator to place the reports by the attorney and administrator under new business for future meetings. Mayor Clemens pulled Item D (Attorney Report) and Item E (Administrator Report) from the consent agenda. Robert Lepa pulled the warrants for accounts payable from the consent agenda. The Trustees noted that the Boards had previously approved the minutes for the meeting of October 23, 2007.

- A. Employees' Retirement Board: and**
- B. Police Retirement Board: and**
- C. Employees' and Police Retirement Boards:**

Action: A motion was made and seconded to approve Item B (warrant for accounts payable for the Police Retirement Board) and Item C (Minutes for October 2, 2007; December 4, 2007; and January 22, 2008).

Vote: Voice vote showed: AYES: Unanimous. NAYS: None.

Robert Lepa asked for an explanation regarding the payment of the premium for the renewal of the Fiduciary Liability Insurance. Dave Murphy, Risk Manager for the City, joined the meeting by phone. He explained that Travelers dropped the prior coverage after the Finance Department did not pay the premium in a timely manner. Mr. Murphy obtained an alternate quote for coverage from AIG with similar premiums and terms.

Action: A motion was made and seconded to approve Item A (warrant for accounts payable for the Employees' Retirement Board) of the consent agenda.

Vote: Voice vote showed: AYES: Unanimous. NAYS: None.

The Trustees separately considered the approval of invoices for legal services received from Sugarman Susskind just prior to the meeting. Valerie Hurley asked Mr. Harrison to review the split of charges between the Boards related to Merrill Lynch. The invoices also contained a charge for meeting preparation, which should be covered under the retainer agreement.

Action: A motion was made and seconded approve payment of the regular retainer for Sugarman and Susskind, but ask the firm to invoice again the other charges.

Vote: Voice vote showed: AYES: Unanimous. NAYS: None.

Action: A motion was made and seconded to approve the renewal of the Fiduciary Liability Insurance for both Boards through AIG.

Vote: Voice vote showed: AYES: Unanimous. NAYS: None.

D. Board Attorney's Report:

Attorney Kenneth Harrison reported that the Florida legislature amended Chapter 119, regarding the use of Social Security Numbers by municipalities. He advised that the Boards must provide a disclosure to the members whenever collecting Social Security Numbers on forms, as well as report annually to the office of the governor any other entity requests for Social Security Number information.

Action: A motion was made and seconded to adopt the policy as recommended by counsel regarding the use of Social Security Numbers.

Vote: Voice vote showed: AYES: Unanimous. NAYS: None.

Mr. Harrison then reported that the IRS will offer some forgiveness to correct existing problems should the Boards seek to update their determination letters. He recommended that the Board take advantage of the opportunity. He stated that each plan should typically update the determination letters after a "substantial" increase in benefits. His firm will update the current determination letters for a fee of \$9,500 for each plan.

The Trustees asked Mr. Harrison to provide the service for \$11,500 for both plans. Mr. Harrison will seek approval from Mr. Sugarman.

Mr. Harrison reported that he looked into the outstanding invoices from Suntrust for services rendered in 2000 and 2001. Suntrust recently distributed the remaining plan assets back to the respective plans, although the former custodian continued to invoice the plans for the past seven years. Mr. Harrison recommended that, due to the amount of time that already passed, the Boards take no action on the invoices from Suntrust.

E. Administrator Report:

Mr. Baur reported that matters relating to the transition in plan administration were previously addressed in the meeting.

VI. ADJOURNMENT:

There being no other business and the next meeting having been previously scheduled for Tuesday, March 25 at 2:00 PM, the Trustees adjourned the meeting at 5:05 p.m.

MINUTES APPROVED: March 25, 2008

Valerie Hurley, Chair
Employees' Retirement Board

Kenneth White, Chairman
Police Retirement Board

J. Scott Baur, Administrator
Employees' & Police Retirement Boards