MINUTES OF THE TOWN OF PALM BEACH RETIREMENT SYSTEM POLICE OFFICER BOARD OF TRUSTEES

MEETING OF MAY 14, 2009

I. Call to order

Mr. Raymond Snow, Chairman, called the meeting to order at 9:08 A.M. at the Emergency Operation Center at 355 South County Road, Palm Beach, Florida.

In Attendance:

TRUSTEES:
Ray Snow, Chairman
Detective Michael Lynch, Chair Pro Tem
Sergeant Chris Proscia, Secretary
James McC. Wearn
Gerald Goldsmith

ALSO PRESENT:
William P. Hanes, Pension Administrator
Stu Kaufman, Klausner & Kaufman
Sean Higman, Prime Buchholz
Brad Armstrong, GRS

II. Approval of Agenda

A motion was made by Mr. Wearn and seconded by Mr. Lynch to approve the agenda. All trustees unanimously approved.

III. Comments by Trustees

Mr. Wearn passed out a report of his attendance at the Klausner & Kaufman conference of April 15 to 18, 2009, and commented that it was an excellent conference. He stated he had kept all the material from the conference as well as a flash drive provided that he will make available to other trustees upon request.

Mr. Wearn made comments regarding a recent publication authored by Mr. Klausner, entitled "State and Local Government Retirement Law and Practice: A Guide for Lawyers, Trustees and Plan Administrators" that he thought should be obtained for all trustees. Mr. Kaufman stated that he would make it available.

Mr. Wearn moved and Mr. Lynch seconded the motion for the Administrator to purchase at least six copies of the publication entitled "State and Local Government Retirement Law and Practice: A Guide for Lawyers, Trustees and Plan Administrators" at the most reasonable cost that the Klausner & Kaufman firm could make available to the Board. The trustees approved unanimously.

Mr. Wearn stated that he has recently met with all members of Town Council to discuss matters of the Town pensions and to stress that Town employees are a most significant Town resource. He discussed how important it is to remember that the action members of the Council take today that will impact public employees will also impact the quality of life for the residents over the long term.

Mr. Snow noted that all the trustees have attended the Ethics training sessions that was recently provided by the Town, and he pointed out that trustees have an obligation to act as fiduciaries, which prescribes a specific manner of legal behavior.

IV. Approval of Minutes

Mr. Goldsmith made the motion and Mr. Wearn seconded the motion to adopt the February 12, 2009 minutes as proposed. The trustees unanimously adopted the motion.

Mr. Wearn moved and Mr. Goldsmith seconded the motion to adopt the April 1, 2009 minutes as proposed. The trustees unanimously adopted the motion.

V. Matters of Town Council review of Public Pensions

Mr. Snow updated the trustees on matters of interest to the Town Council regarding public retirement benefits. He discussed that the trustees had previously instructed that a letter be provided to members of Town Council summarizing important 2009 special meeting (copy attached herewith), and the letter was prepared by Klausner & Kaufman, and was subsequently approved by the Chair and placed in each Council member's mailbox at Town Hall. Mr. Elwell, Town Manager, also received a copy.

Mr. Snow discussed that a meeting was held at Town Chambers on April 27, 2009 by the Finance and Taxation committee, where numerous reports were provided by citizen advisors who were appointed by the Committee to address various areas of the Town budget. He discussed that Mr. Alvin Parven reported on matters of the impact of pension benefits. Mr. Hanes and Mr. Lynch were present at the meeting, and discussed with the trustees the matter of that report.

Mr. Hanes said he is concerned that he did not believe that the report made clear that the existing unfunded liability represents a real dollar cost owed by the Town to the public employees, and the law requires it to be paid through Town contributions. He stated that he hopes that members of Town Council do not believe that any recommendation for change to the retirement system, either by Mr. Parven or a consultant, will reduce or eliminate those unpaid costs. He stated that any change to the plans will have an impact on funding over a longer period, but not today. He discussed that Mr. Parven ultimately recommended that the Town attempt to seek the assistance of a consultant, and that the Finance and Taxation committee agreed to recommend to the Town Council that an RFP be issued, and that a consultant be hired to advise the Town Council on matters of pension design change and pension costs, and to make recommendations.

Mr. Snow stated that he would like to see a commission of the Town be appointed to review matters of pensions along with the consultant. He discussed that he believes the three Town Boards of Trustees could serve as significant resources for the Town Council, and he would like to see the Town Council become more involved with Boards on matters of the Town retirement systems.

Mr. Snow discussed with the trustees that the Town Council usually receives a report from the three retirement boards in June of each year at the Town Council meeting for that month. He stated that neither he nor Mr. Hanes had been notified by the Town, but recently asked Mr. Hanes to inquire about the meeting. Mr. Hanes stated that he placed a call in to Mr. Elwell on the previous day, but has not yet heard back from him. Mr. Wearn stated that he believed Mr. Snow should present the annual report on behalf of the Police Officer Board of Trustees to the Town Council when it is appropriate, and that the presentation should report the important matters that have preoccupied the Board meetings over the past year as well as events we have discussed over the past several years.

VI. Actuarial Report

Mr. Armstrong stated that he understands that an RFP for a consultant that is being proposed by the Town Council is for the specific purpose of reviewing plan design and cost issues. He stated his firm has been asked to comment on the financial implications of any recommendations made. He stated that no cost will be billed to the Boards for his work. Mr. Snow asked Mr. Armstrong if he did any work for Mr. Parven. Mr. Armstrong stated that he provided projections. Mr. Armstrong stated that the problems the Town Council are reviewing are local and state-wide problems. He stated the opinion that keeping the plan open gives the Town the greatest opportunity to make decisions that can create the best financial control. He said if you close the system, the unfunded liability is still there with less people to pay for it, and the cost will remain to be paid for over a shorter period of time. He also pointed out that maintaining two systems is not cheap.

Mr. Armstrong said his job as the actuary is to create a budget tool that can be used for budgeting pension expenses. Mr. Armstrong stated that the Trustees should look at the minutes from the May 8, 2009 meeting of the General Employee Board of Trustees for his testimony.

Mr. Armstrong discussed the September 30, 2008 actuarial valuation report. He discussed that the funding ratio went down slightly, from 91.8% the preceding year to 90% for the September, 2008 period. He discussed that smoothing of assets have kept the funding greater than market (market valuation is at 79.8%). He discussed that the Town contribution is recommended to go from 36.17% to 39.31% of payroll. In light of the market decline, he felt the increase to be a reasonable result.

Mr. Armstrong stated that the salaries went up by 11.6%, and that contributed to the increase in Town costs. He stated that as far as next year's experience indicators, if the contribution requirements go up in the next few years and there is no rebound, then those higher contributions will be sustained. Mr. Goldsmith stated that even if the investment assumption is reached, the Town contribution rates will go up. Mr. Armstrong agreed, and explained that for the next several years the plan will experience losses based on past unrecognized losses that will be recognized losses in future years.

Mr. Snow asked that the trustees go to page B-8 of the actuarial valuation report, which explains the impact of smoothing. Mr. Snow pointed out that 2008 recognized a loss of $2.4 million, and explained that the plan will recognize the same amount of loss in each of the next four annual valuations. Mr. Lynch discussed the idea of creating a reserve fund in times when the funding level is at 100%, and several trustees acknowledged this to be a matter that should be considered by the Town Council. Mr. Snow suggested that the trustees might want to consider going to a 10 year smoothing valuation method in order to buffer a very large one year loss like the one the plan experienced in the past year.

Mr. Armstrong stated that the Town's annual required contribution from the valuation is $2,261,552. He stated that in the preceding annual report, the amount was $2,090,000. He pointed out that the total employer contribution rate of 43.30% is at its historical high point.

Mr. Armstrong stated he had made a projection for the Town from a specific market valuation point of February 28, 2009, as requested by the Town. He made note that the valuation at that time to be very low, and therefore he was projecting from a very low point of asset valuation. He stated that to project from this point creates an unreliable projection that does not recognize a future rebound in the market as is usually the case. He emphasized that the market often cuts back, but from an historical perspective, it always is the case that the market will rebound with a market correction. He stated that evidence of that point is seen one month later, in the end of March valuation, representing an upturn of the market. Mr. Wearn recommended that a correction be made to the Parven document, and the actuary should use the March or April valuation. He stated that the result of the projection based on the later date should be pointed out by Chaiman Snow when he presents to the Town Council. Mr. Armstrong stated that the General Employee Board of Trustees had asked that a projection be provided based on a valuation at the end of March, and it reduced the actuarial projection on Town cost by $100,000 from a February projection.

Mr. Wearn moved to approve the actuarial report. Mr. Lynch seconded the motion. The trustees approved unanimously.

III. Continued:

Mr. Wearn moved to amend the agenda so that the Investment presentation be placed as Item VIII, after the Financial Report and prior to the Attorney Report, and all other items placed in order. Mr. Goldsmith seconded the motion, and the trustees approved unanimously.

VII. Financial Report:

Mr. Ed Holt provided the unaudited financial report. He reported that total assets are $46,180,000 with Liabilities at $92,000,000, so assets in trust represent approximately $42 million.

Mr. Holt stated that he has listened to the presentation regarding the Parven report, and would recommend that the actuary provide an overlay to the graph provided in that report, but with a valuation date at the end of March representing the additional overlay.

Mr. Snow asked Mr. Holt about the work with retirement administration transition and Mr. Hanes. Mr. Holt stated that it is going extremely well. Mr. Hanes affirmed.

VIII. Investment Report:

Mr. Higman presented the March 31, 2009 quarterly performance report and included the performance of the month ending April 30, 2009.

Mr. Higman stated that the markets observed the best two month rally from February through April, 2009, since the Depression. He stated that the period is split between January 1 through March 8, 2009, and March 9 through April 30, 2009, with a rally running through the end of April. He stated that Hedge Funds and speculative funds do not see things fundamentally changing. He pointed out the fact of many bear markets of the past, and that rebounds usually do follow. He suggested that the trustees be focused on risk management going forward.

Mr. Higman stated that the equity markets are up, and noted the Russell 3000 Growth was up over 5% year to date, while the Russell 3000 Value was down by 7.75%. He pointed out that the sector of consumer discretionary was up year to date at 18.65% and compared that to an annual return of 9%. He stated that the financial sector returned over 22% for the month of April, and returned year to date at -13%. He stated that these spreads underscore the reason to diversify.

Mr. Higman pointed out that high yield bonds had the best one month performance in history in April, 2009. Mr. Goldsmith indicated that every newspaper seems to be saying we are going to experience major inflation because of the money being pumped in the economy. Mr. Higman pointed out that the year to date in the bond markets is up 60 basis points. He noted that the long Treasury is down 10% year to date.

Mr. Higman stated that there is a more normal trading environment for the Hedge funds, and for the most part, it is positive in a place that hasn't been positive until recently. Mr. Higman noted that the Police portfolio, calendar year to date, is positive for April, but discussed an error in the target index for bonds that would have changed in January, but only affects the calendar year to date. He stated that the true target index for the one month in January should reflect a 4.5%, and the three months should reflect 2.6%.

Mr. Higman stated that we are doing fairly well with regard to the active managers, and referred to the watch list.

Mr. Higman discussed the alternative strategies, and noted the board policies have been effective over the past 12 month period, and has served to be protective. He stated that over the 12 month period, we are down 17% in an environment when the Russell 3000 was down 35%.

He noted there was a positive return with the total fixed income portion of the portfolio.

IX. Attorney Report:

Mr. Kaufman discussed that the legislature lifted the 10% cap on foreign securities, so the fund can now exceed the former 10% cap. He noted that there is no need to change the ordinance. Mr. Higman stated that he will be bringing recommendations regarding this change to the August meeting, and any changes needed to the investment policy.

Mr. Kaufman discussed that the legislature has authorized municipalities to extend Board terms from two to four years. Mr. Goldsmith stated that he believes it should remain at two years along with the other public officials in the Town of Palm Beach.

Mr. Wearn asked what has happened with the proposal for staggering terms that was proposed previously, and that he had thought that the Town Attorney had drafted the ordinance, but didn't know what happened afterward. Mr. Wearn thought the Board should pursue it.

Mr. Kaufman stated that Mr. Klausner had discussed with Kathy Williams with State Street Bank the matter of a proposal for an agreement between the

Town of Palm Beach Police Officer Board and Firefighter Board for custodial services that would result in savings to both funds. Mr. Kaufman passed out a draft agreement for the trustees to review.

Mr. Kaufman stated that his firm negotiated the lease for the Administrator's office with the management company by agreement with Ms. Bonni Jensen, Attorney for the Firefighters Board of Trustees, in order to achieve savings for both boards. Likewise, Mr. Hanes stated that Ms. Jensen reviewed the contract for scanning and conversion services on behalf of both the Police Officer and Firefighter Boards.

(Mr. Goldsmith left the meeting at 11:47 a.m.)

IX. Administrator's Report:

Mr. Hanes reported on the status of conversion of documents. He discussed that he will receive training from the Town, and that the conversion system will be on-going. He mentioned that the company doing the conversion currently is in possession of the numerous documents that have been converted, and that he periodically needs to obtain the files electronically for members to process requests for retirement or refunds; or based on requests made from other divisions of the Town. He stated the conversion company, MCCi, has been very cooperative. He stated he believed the town will soon provide training to staff and Mr. Hanes for access and use of the documents.

Mr. Hanes reported that the he is now in his new office at 249 Royal Palm Way, in the Town of Palm Beach.

Mr. Hanes reported that the estimator is nearly complete, and the on-line calculator is also near to being completed for use by the Police Officers. He indicated that he anticipates the business of the administrator will pick up when the calculator goes live.

Mr. Hanes discussed that he and Chairman Snow recently received a memorandum from the state Division of Retirement indicating the Police

Officer and Firefighter retirement plans were late in filing of the Statute Section 185 report. He discussed that Ms. Elisabeth Capota of the Auditor's office had indicated that the rules had changed, and that Ms. Capota had asked for an extension, and was granted. She indicated that the Boards should not be concerned.

Mr. Snow asked about the status of a policy manual, and Mr. Wearn stated that he has received a sample draft from the attorneys, and he is working on it. Mr. Hanes suggested that there are numerous matters that need to be dealt with in regard to the establishment of processes, and the auditor has indicated that outsourcing is very common with the complexity and time consuming nature of the project.

X. Disbursements:

Mr. Wearn moved for the acceptance of all disbursements and file for audit. Mr. Proscia seconded the motion. The trustees unanimously adopted the motion.

XI. Retirements:

Mr. Wearn moved for the ratification of the approval of the applications for retirement and for ratification of the approval for the DROP as recommended by the Administrator. Mr. Lynch seconded the motion. The trustees unanimously approved the motion.

XII. Old Business:

There were no items of old business discussed.

XIII: Adjournment:

Mr. Lynch moved to adjourn and Mr. Wearn seconded the motion. The Trustees unanimously approved the motion.

Next Meeting: August 13, 2009

MINUTES OF THE TOWN OF PALM BEACH
RETIREMENT SYSTEM
POLICE OFFICER BOARD OF TRUSTEES
MEETING OF MAY 14, 2009

Attested by: ______________________

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Chris Proscia, Secretary