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MINUTES OF RETIREMENT BOARD MEETING
FRIDAY, NOVEMBER 17, 1995

I. CALL TO ORDER

The meeting of the Retirement Board of Trustees was called to order by Chairman Harvey at 9:10 a.m., on Friday, November 17, 1995, in the Town Hall Council Chambers. Attending were: Chairman Robert D. Harvey, and Trustees Robert J. Doney, John DeIorio, George Frick and Charles Boggs. Vice Chairman James McCartney Wearn was unable to be present due to a long standing commitment with the American Red Cross Board of Trustees. Also in attendance were Personnel Director William C. Crouse, Personnel Programs Coordinator Carla S. Kneipp, Finance Director Marie A. Crozier, Assistant to the Finance Director Cheryl Somers, and Attorney John McCracken.

II. APPROVAL OF AGENDA

Mr. Harvey asked for any additions or changes to the agenda.

Mr. Crouse asked that the an appearance of Ed Vroom of Roanoke Asset Management be added to item V, Quarterly Reports.

There being no further additions or changes, Mr. Frick moved approval of the amended Agenda of November 17, 1995. Mayor Ilyinsky seconded the motion. Motion carried unanimously.

III. APPROVAL OF MINUTES - REGULAR MEETING OF AUGUST 18, 1995

Mr. Harvey asked for corrections or changes to the minutes of the regular meeting of August 18, 1995.

There being no changes, Mayor Ilyinsky moved approval of the minutes of the regular meeting of August 18, 1995. Mr. Frick seconded the motion, and all voting aye, the motion carried.

IV. NOMINATION AND APPOINTMENT OF SECRETARY TO RETIREMENT BOARD TO FILL UNEXPIRED TERM OF DEBBIE KELLY.

Mr. Harvey called for nominations for Secretary. Nomination of John DeIorio to serve as Secretary of the Retirement Board to fill the unexpired term of Debbie Kelly was made by Mr. Doney. Mr. Harvey called for further nominations and there were none. Mr. Boggs moved to close the nominations and Lt. DeIorio be elected Secretary by acclamation. Mrs. Smith seconded the motion. The motion carried unanimously.

V. QUARTERLY REPORTS

A. LOOMIS, SAYLES & COMPANY

Kent Mergler of Loomis, Sayles and Company appeared before the Board to introduce Peter Ven Beuren of their Palm Beach Gardens office, and Mike Harris of their Detroit office. He explained that Mr. Van Beuren and Mr. Harris would be presenting Loomis, Sayles and Company's report.

Mr. Van Beuren appeared before the Retirement Board and asked the Board members to refer to the report that had been provided to them. He explained that Loomis, Sayles and Company's primary objective was to provide growth of principal and income of planned assets to exceed the CPI and actuarial earning assumptions over five years. He stated that their guideline was 40% in equities at this stage as of the end of October, but at their present rate of 37.6%, they were under the guidelines by just a small amount, and were adhering to the Town's guideline. Mr. Van Beuren explained that fixed income was at 60.5% and the cash position at the end of October was almost 2%. Mr. Van Beuren stated that the benchmarks were to exceed the S & P 500 index over a five year period, with fixed income to exceed the Lehman Brothers Government Corporate Index over five years.

Mr. Van Beuren stated that this was one of the great times to be a money manager. He explained that fixed income and equities were doing well. He reported that the S & P 500 index was probably up 26% since the end of the year, and was up about 3 1/2% since August, and since the end of October, the index on the equity side of the market had gone up about 2.7%. Mr. Van Beuren explained that in the fixed income area, the yields on short, intermediate and long term bonds had come down over 27 basis points for 90 day bills over the course of the year, and the long term bond was down 154%. Mr. Van Beuren explained that when he referred to basis points, he was referring to 1/100 of 1%, so 50 basis points was about ½%. Mr. Van Beuren stated that to put into perspective the total rates of return for equities and fixed income investments, over the last ten months compared to the S & P index that was up 1.3% in all of 1994, the market was now up 29.3%, and it was up 21% just since the end of July. Mr. Van Beuren stated that the market was very powerful at this time. He reported that the fixed income Lehman Brothers Government Bond index was up 15.6% for the ten months of 1995, and it was up an additional 37% since July, so this was really history making. He explained that the Town had enjoyed very handsome returns in their portfolios.

Mr. Van Beuren then reported on Loomis, Sayles and Company's returns for February 1, 1995 to October 31, 1995. He explained that the equities had increased 28.4% against the benchmark of 26.0%, and stated that this was a good cushion of 2.4% over the benchmark. Mr. Van Beuren stated that the benchmark was a high benchmark, with the index being quite high. He explained that while everyone was enjoying good returns, the hurdle was a high one to beat so they were very pleased with these returns. He further stated that they were also pleased that with a new relationship like this they were able to start off in a very strong market, and that their managers had immediately put funds to work.

Mr. Van Beuren explained that the fixed income area of their portfolio was up 13.4% for the nine months over 13.4% benchmark, so they were holding their own with the benchmark for fixed income. He explained that Mr. Harris would elaborate a little more on that area, and stated that he thought it was important to comment that the very high quality of the Town's portfolio, which was a triple A quality, made this type of return very good, and Loomis, Sayles and Company looked forward to continuing this type of performance. He explained that the overall portfolio was 18.8%, and the mixture of the index of 40% S & P and 60% with the Government fixed income index brought them around 18.4%, so they were exceeding the overall portfolio return.

Michael Harris, Vice President of Loomis Sayles and Company, appeared before the Retirement Board and reported on the fixed income portion of the account, as well as the equities out of the Detroit office. He explained that his associate, Greg Watkins, was a portfolio manager in charge and responsible for the equity portion of the portfolio. He explained that he and Mr. Watkins would take turns in appearing before the Board so the Board members would have the opportunity to talk to the Fixed Income Portfolio Manager and the Equity Portfolio Manager.

Mr. Harris explained that the total market value of their assets under management were now about $19 million, and invested about 60% in fixed income and about 37.5% in equity, with a small cash reserve of about 2%. He explained that they were essentially fully invested and that was how they managed the portfolio, with very little cash reserves.

Mr. Harris reported on some of the characteristics in the portfolio, in particular the equity characteristics, explaining that Loomis was a value manager, and their style of equity management was one that focused on lower price to earnings stocks, and that their portfolio showed an equity portfolio that trades at a discount to the market. Mr. Harris reported that the stocks they owned in the portfolio were expected to grow a little faster than their expectation for the S & P, so they were finding good quality companies that were trading at a discount to the market, and that was a reaffirmation of Loomis's value equity style.

Mr. Harris reported on another aspect of their style that he thought was extremely important which was the diversification summary, and explained that Loomis was represented in all the major sectors of the S & P. He stated that Loomis kept a very diversified portfolio, both in terms of individual issues as well as sector weightings relative to the S & P. He explained that this was a key indication of their value management style. Mr. Harris explained that there were selected areas of emphasis, in particular, this year they had emphasized businesses and financial services as a key area of value, and that had really helped Loomis outperform the S & P 500 on the equity side. Mr. Harris explained that in terms of an area they had under weighted, and probably to some extent moved away from too soon, was the technology area. He stated that they were at a market weighting at the beginning of the year and by the middle of the spring they had been cutting back, so they had been able to produce a portfolio outperforming the S & P 500 28.4% versus 26% for that nine month period, even without much in the way of technology. Mr. Harris stated that they were very pleased that they had been able to outperform the S & P without much of a commitment to that sector of the market.

Mr. Harris stated that in terms of the fixed income portfolio, the fixed income characteristics showed that the portfolio's exposure to interest rate risk was roughly 5.4 years, compared to the market of 5.1 years, so they were a little bit longer with a little more exposure to interest rate risk. He explained that Loomis felt there would be a continuation of a decline in rates, although the majority of the rate decline for this period was probably behind them. He stated that he felt rates could go down a little further, particularly shorter to intermediate term rates. Mr. Harris explained that their yield to maturity was about that of the market, or about 6.3%. He stated that one of the difficulties that they had experienced on the bond side of the portfolio in their restructuring was trying to find corporate bonds that they liked from both a credit quality perspective, where they thought there was fundamental improvement in the credit quality at a reasonable price or a reasonable yield spread over treasury bonds. He stated that right now they had just under 10% in corporate bonds, and he would like to see that be a much higher percentage, but they have had a difficulty in finding securities that they liked from a fundamental credit perspective at a reasonable price, so they had moved a little more slowly. Mr. Harris stated that they hoped to find some more opportunities in that arena, which would give them a little more of a yield advantage over and above the market. He explained that this was one of the strategies that he hoped to see in the portfolio by the next Retirement Board meeting.

Mr. Harris then outlined Loomis, Sayles and Company's outlook for the financial markets and the economy, and what their strategy would be over the next several months. He stated that Loomis thought economic growth would continue, but at a little slower pace than had been seen so far this year. Mr. Harris stated that he thought it would be a good period with low inflation, which should give interest rates an opportunity to come down a little bit more. He explained that on the equity side, there would probably be a decline or deceleration in the rate of earnings growth that they had seen over the last couple of years. Mr. Harris explained that their forecast for S & P's earnings growth rate was substantially lower than they had seen over the last couple of years, and he thought this would make things a little tougher for stocks, but one of the offsetting and positive factors of this would be the decline in rates. Mr. Harris concluded his presentation by stating that Loomis would continue to overweight business and financial services, explaining that they continue to find good value opportunities there; and on the bond side, they would have a little longer duration and have opportunities to add to their corporate bond position.

Mr. Harvey asked the Board members if they had any questions for Loomis, Sayles and Company.

Mrs. Smith asked Mr. Harris how often the portfolio was reviewed. Mr. Van Beuren explained that he and Mr. Harris reviewed the portfolio not only for its asset allocation and making sure that the cash was invested, but also for new opportunities to be included in the portfolio. He stated that they had been quite active. Mrs. Smith asked if there was anything in particular that they had to do in anticipation of the government shutdown, and asked if there were any treasuries that were due recently. Mr. Van Beuren explained that there had been some interest payments that had come due recently, and they were paid. He stated that they hadn't really taken any strategic steps to the portfolio in the wake of the budget debate.

There were no further questions or comments for the representatives of Loomis, Sayles and Company.

B. ROANOKE ASSET MANAGEMENT, INC.

Ed Vroom of Roanoke Asset Management, Inc. appeared before the Board and reported on their performance review and a review of their current strategy. He explained that all of the numbers he would be presenting would be as of September 30, 1995, and the performance would be as of that date.

Mr. Vroom explained that the status of the fund showed that the portfolio as of that date was $21.4 million broken up between short term investments for 3%, fixed income for 47%, and common stocks 49%. He explained that these were above the Town's guidelines, and Roanoke had continued to liquidate stocks almost all year to bring this back into line, and by year end the Board would see that the common stock portfolio would be within the set guidelines.

Mr. Vroom then reported on the equity portfolio explaining that for the quarter ending September 30, 1995, their stocks had increased 18.2%, which was over double the rate of return in the S & P. He explained that the twelve month period reflected the equity returns as almost doubled the rate of return achieved by the S & P at 54.5%. Mr. Vroom explained that the three and five year numbers were the compound annual numbers for the equity returns. He reported that for the three year period, the compound rate of return was doubled from the S & P, and the five year return was 50% higher than the S & P 500, at 25.4% compounded annually. Mr. Vroom explained that from inception, this made their return 19.5% from January 1, 1983, which was a rate of return that was 20% better than the S & P over that period of time. He stated that when equities grow at that rate they very quickly move beyond the guidelines.

Mr. Vroom reported on the fixed income returns, stating that they were outstanding. He explained that for the quarter they were roughly double the Lehman Brothers, and for the one year period the return was 17.6%, again, substantially better than the index. He stated that the same held true for the three year and the five year numbers, and from inception, the return was roughly 10% better than the Lehman Brothers. Mr. Vroom stated that the three and five year numbers and the total fund of the portfolio exceeded the S & P 500 for the five year on a compounded annual rate of return of 17.7%.

Mr. Vroom stated that from inception, the total fund had compounded for twelve years, nine months at 14.7%. He explained that the past twelve months had been an outstanding, unusually good period for the market in general.

Mr. Vroom explained that Roanoke Asset Management was a growth stock manager, and they tried to identify companies that were growing on a secular basis, both top and bottom line, at greater than 15%. He stated that the reality was they had been able to find companies that were growing at a much higher rate that also had healthy and stable profit margins; that money was reinvested in their businesses to maintain that kind of growth rate; balance sheets supporting that above average rate of growth; products and services that put them in a strong and competitive position to maintain pricing flexibility; and introduced new products and new services to continue that growth movement. He further stated that Roanoke also liked to own companies that had strong ownership positions.

Mr. Vroom explained that in terms of Roanoke's sector investments, their strategy had been in place for well over three years He stated that they had been believers in the technology sector and had invested in that group over the last three or four years, and they continue to be fundamentally committed to that area. He stated that there were a number of things that were occurring that were causing technology to become pervasive in the society, and Roanoke had reduced their technology ratings over the last month, but remained fundamentally committed to that sector. Mr. Vroom reported that in reference to health care, Roanoke was in the middle of a massive conversion from indemnity to managed care, with Medicare providing new opportunities. Mr. Vroom explained that a new sector in the portfolio that Roanoke had recently committed to were health care information providers, explaining that these were information systems for the providers. Mr. Vroom reported on telecommunications, and explained that they were just at the beginning of the growth in that segment.

Mr. Vroom explained that Roanoke had an average weighted market cap in the portfolio, that they considered an average market cap of 3.7 billion versus the S & P 500 of 22.5,. He explained that it was important to look at the earnings growth rate of Roanoke's portfolio versus the S & P 500, and that was where they really distinguished themselves. Mr. Vroom stated that on a trailing twelve month basis, the earnings growth that their companies achieved was 32% versus 21% for the S & P. He explained that the current year growth rate was expected to be 34%, but next year would be the first year where there would be a real dramatic shift in the relative growth rates of their portfolio versus the S & P 500, and they would expect that next year should be a very positive year for smaller and mid-size companies with these kinds of growth rates because of the dramatic difference between the S & P and Roanoke. He explained that they expected a 30% growth rate, and the S & P growth rate to drop down to 7.6%. Mr. Vroom stated that on a PE basis it might be expected that a premium would have to be paid on this kind of growth rate, but for next year, the premium relative to the growth rate differential was not out of line.

Mr. Vroom stated that Roanoke has a very diversified list of companies, and owned over 55 companies in the portfolio, so they were not placing huge bets on any particular company. Mr. Vroom explained that they were double weighted in technology, with a little more than 50% higher in health care, and telecommunications was also an area where they were overweighted.

Mr. Vroom explained that the fixed income had been the same as prior quarters with a yield to maturity of 7.3 years, and a double A and triple A portfolio of primarily government bonds.

Mr. Vroom then asked what the schedule was for Roanoke to appear at Retirement Board meetings. Mr. Crouse explained that for next year and following years, the money managers were scheduled to come twice during the year, at the quarterly meetings of February and August. He explained that this left the May meeting open for presentations as needed, with only Callan reporting in November.

Mr. Harvey asked the Board members if they had any questions regarding this report. Mr. Doney commented that these reports were great news. Mr. Harvey agreed. There were no further comments or questions.

C. CALLAN ASSOCIATES, INC.

Mr. Crouse reported that there was no representative from Callan Associates present for the meeting. He explained that their office had been called, but Mr. Burbank was out of town. Mr. Crouse stated that Callan had been asked to be in attendance, but that they had failed to notify the Town that they would not be present.

Mr. Harvey asked Mr. Crouse if he would take it upon himself to coordinate these presentations. Mr. Crouse stated that his staff did follow up on scheduled appearances, and would continue to do so. Mr. Doney asked that Callan be requested to appear at the next quarterly meeting. Mr. Crouse explained that they were scheduled to be present.

Mr. Harvey then stated that both of the managers had performed extremely well. He stated that Loomis had done a very good job of getting invested, explaining that normally when there is a transition like this there is a delay, and if this had happened, it would have been very easy for them to fall behind very quickly. Mr. Harvey stated that he thought Loomis had done a very good job in being a new manager.

Mr. Harvey stated that the Town had two active managers and two passive, one being the S & P 500 index, which was up 28% to 29% this year, and the bond portfolio, with a five year average life. He stated that these four things gave the Town balance. Mr. Harvey explained that Roanoke was now being forced to cut back, stating that from the Town's standpoint in terms of managing a portfolio, this was what the Town wanted to have happen. He stated that the Town wanted Roanoke to "put a little hay in the barn", and this was what Roanoke was being forced to do at this time. Mr. Harvey explained that this kept the Town in the middle of the pack, which was important in considering the management of the fiduciary relationships of managing the retirement monies. Mr. Harvey stated that the Town was fortunate in that they had a growth manager, a value manager, and two passive index type situations for their money.

Mr. Boggs asked if as a result of returns like this, there was any benefit to the Town employees, such as a reduction in the amount they contributed. Mr. Doney explained that this was reviewed on an annual basis by the actuary, Ron Smith. He stated that when the next actuarial report was submitted, it would indicate whether or not any changes in contributions could be made. Mr. Frick commented that the Town may be able to reduce their contributions, but the employee portion would remain the same. Mr. Doney explained that the expenditures were on the high end, and have gone up.

VI. REPORT ON QUARTERLY EXPENDITURES

Marie Crozier explained that this report covered the quarter from November of 1995, through January of 1996. She stated that the balance as of November 7, 1995, was $373,208,. Mrs. Crozier explained that the first quarter transfer of employer contributions, which would be made in November, was anticipated to be $753,821. She stated that estimated pension benefit payments for the three months in the quarter November through January would be approximately $771,000, or $257,000 per month; estimated other expenses, refunds to employees, and manager's fees were anticipated to be $170,000; employer contributions for Public Safety, October through January, were estimated to be $160,000, and $100,000 for General employees. Mrs. Crozier explained that this would leave the balance available in the account for transfer to the managers at $446,000, and the recommended transfer was for $396,000. Mrs. Crozier reported that these monies included the $341,970 received from 175/185 monies, and the recommendation was to have these monies split, 25% to Roanoke, 25% to Loomis, 20% to First Union, and 30% to ANB. She explained that this was the split that had been approved in December of 1994. Mrs. Crozier explained that she would prepare a letter to First Union to have this done if the board so desired. Mr. Harvey asked if the split was different between the fixed income and the index because of the Town's ratio of equities. Mrs. Crozier replied yes.

George Frick moved approval for quarterly expenditures as recommended by Mrs. Crozier. Mayor Ilyinsky seconded the motion, and all voting aye, the motion carried.

VII. DISCUSSION ON COMMISSION RECAPTURE PROGRAM BY MARIE A. CROZIER, FINANCE DIRECTOR

Mrs. Crozier then reported on the commission recapture program. She explained that it had been her understanding that this was only going to happen during the transition period, and in speaking with Tom Burbank, she realized that the recapture program did not stop when the transition was complete. Mrs. Crozier explained that she was not suggesting that any managers be forced to trade through Alpha, but, as Mr. Burbank indicated, if indeed Roanoke or Loomis found Alpha to be the most competitive vendor, then the fund receives 50% of any commissions. Mrs. Crozier stated that she realized that many times the commissions were used to purchase research, and she was not suggesting that they should not do that, but Mr. Burbank had indicated that typically, only about one-third of the commission flow goes to research. Mrs. Crozier explained, that as Mr. Burbank indicated, unless there was a compelling reason to do otherwise, it makes sense to use the commission dollars to benefit the fund. Mrs. Crozier stated that what she would like to inform the managers that this recapture program is in place, and unless there is a compelling reason to go elsewhere, it would benefit the fund for them to trade through Alpha, if it was the desire of the Board to concur with that.

Mr. Doney asked if there would be a separate report done on a monthly basis to identify those earnings. Mrs. Crozier stated that she would be happy to provide one, and in fact, the reason it had become apparent to her was that it hadn't happened just during the transition period because one of the Retirement Board's bills had been offset by 50% commissions that were recaptured by Alpha. She explained that Mr. Burbank had explained to her that the relationship would continue. Mrs. Crozier stated that she had asked that they not offset the bill in the future, but to send a check so the Town could separately track the commissions that were being captured as a result of the program being in place. Mrs. Crozier stated that if the Board concurred that this was the direction they should go in, she would be happy to prepare a quarterly report on any commissions that were paid to the fund. She explained that she could see no reason not to do it. Mayor Ilyinsky stated that he agreed. Mrs. Crozier stated that she did not think the managers should be forced to do this, but should be advised that it was available, and unless there was a good reason not to trade with Alpha, they should look at the benefit to the fund and do that. Mayor Ilyinsky asked why the managers were not now aware of this. Mrs. Crozier explained that they were aware, but she suspected that they believed what she believed, which was that this was something that was going to happen only through the transition period, and would not be a continuing relationship with Alpha. Mrs. Crozier explained that she would like to make the managers aware that this was an ongoing process, that the fund would reap 50% of any commissions, and that they look at this as they make their decisions.

Mr. Harvey explained that in the transition, Callan had offered to be a facilitator in that transition by hiring another manager. He explained that during the shift of assets, they oftentimes had to be liquid assets in order to get the monies available to do that. Mr. Harvey stated that what they had was a brokerage arm that facilitated that transfer, and by liquidating, since there are a lot of liquidations, the Town was able to capture through Alpha some of those commissions to defer some of the charges. Mr. Harvey stated that this was the initial thought, but what had then been set up was an ongoing program versus a transitory program, which was okay, but it was a question for the Board to discuss to determine whether they wanted it done. Mr. Harvey explained that what Callan was saying was these managers do trading, and those commission dollars can be used by the managers to buy research services. He explained that Callan was also saying that the Town could recapture some of those commissions and defer some of the Town's costs. Mr. Harvey explained that what he thought the Board should do was go to each of the managers and ask them what their commission policies were, what cents per share they were trading at, and have an understanding of what cents per share Alpha trades at. He stated that once that information was available, the Board could go back to the managers and set a standard between them, or use it as a further basis to decide how much the Town wanted to impose upon the managers to use Alpha Management. Mr. Harvey explained that the Board might set up an arbitrary thing where a certain percent of their business should go to Alpha. He stated that he would like to look at the commission policies on their equity trades, and get some idea of what cents per share or what scales were used. Mr. Harvey suggested that the Board look at Alpha's policies and the manager's policies, and then a Town policy could be set at the next Board meeting.

Mrs. Smith asked if Alpha Management was a separate company from Callan and Associates.

Mr. Harvey explained that it was probably a brokerage trading arm of Callan. Mrs. Smith asked why the Town would be instructing these other companies to go through something of Callan's when they could possibly get a cheaper execution on their own. Mr. Harvey explained that he was questioning whether they were in fact getting it cheaper. He stated that it was a question of translating soft dollars into hard dollars, which could actually buy services. Mr. Harvey explained that the Town pays Callan and the managers these soft dollars, and that once they are converted into hard dollars, they can in fact defer the costs of Callan or these various services that the Town gets. Mr. Harvey stated that the Board needs to evaluate the various different commission structures of the three, and come to a conclusion as to whether or not the Town wants to use Alpha or whether the firms individually want to kick back hard dollars on their systems. He further stated that it was important to understand what the general fiduciary rules were in terms of what the Town can use those dollars for. Mr. Harvey explained that at the next Retirement Board, this information could be evaluated, and determine what the next step should be.

Mr. Doney moved authorization for Mrs. Crozier to write to Roanoke Asset Management, Loomis, Sayles and Company, and Callan and Associates in order to get written responses that were to be reviewed by Mrs. Crozier, with the matter to be acted upon at the February, 1996, board meeting. Mr. Frick seconded the motion, and all voting aye, the motion carried.

VIII. CONSIDERATION OF FIDUCIARY LIABILITY POLICY

Barbara Martinuzzi, Risk Manager, appeared before the Board regarding renewal of fiduciary liability insurance. She stated that there was a $3,110 reduction in the premium for the same limits of $25 million, and a deductible of $75,000. Mrs. Martinuzzi stated that the Town was continuing in a positive direction and the coverages continued to be very good. Mr. Harvey asked why the premium had been reduced. Mrs. Martinuzzi explained that it had a lot to do with the fact that the Town was a good risk. She explained that the Town had some very conservative investment guidelines, and a well-written ordinance, along with very conservative and effective management and a very involved Board of Trustees. Mrs. Martinuzzi explained that the fiduciary liability carrier, National Union, also writes the Town's public official liability, and the Town had been a long term client with a good accident rate. She explained that there had been no claims on either policy. Mrs. Martinuzzi stated that this certainly was a factor in reducing the premium; however, for a $25 million limited liability, there was only so far that they would go, and the Town may see some insignificant premium reductions in the future but not anything that would be that impactive to the premiums. Mrs. Martinuzzi explained that $25 million was a significant liability limit in return for $85,000 in premiums, and it was extremely competitive and would probably stay about the same minus any changes in the Town's exposure or claims that are presented. She stated that she thought it was a very good program with one of the best carriers that writes fiduciary liability, and she thought it was a good policy and afforded a lot of protection for the trustees.

Lt. DeIorio moved renewal of the fiduciary liability policy. Mr. Boggs seconded the motion, and all voting aye, the motion carried.

Mrs. Martinuzzi then asked for a motion authorizing her to present the waiver of recourse additional premium to the Town Council, and recommend that they fund that premium through the self insurance fund, which was already budgeted, but the waiver of recourse premium could not come out of the pension funds as it would alleviate the purpose of the endorsement.

Mayor Ilyinsky moved authorization for Mrs. Martinuzzi to present the waiver of recourse premium to the Town Council at their December meeting, with the recommendation to fund the premium through the self insurance fund. Mr. Frick seconded the motion, and all voting aye, the motion carried.

IX. APPROVAL OF ANNUAL RATE OF INTEREST TO BE CREDITED MEMBER CONTRIBUTIONS

Mrs. Crozier reported that the Board determined on an annual basis, the rate of interest to be credited to retirement contributions that employees have been made. She explained that the rate is given on the previous year's balance. Mrs. Crozier explained that as an example, in September of 1995, 5.5% was credited to those balances of September 30, 1994. She stated that she was not sure when the 5.5% rate was implemented, but that she had been researching that. Mrs. Crozier explained that it has been 5.5% for at least ten to fifteen years.

Mr. Harvey asked if this was for membership contributions to the Town's fund. Mrs. Crozier replied that this was correct, explaining that the members receive that 5.5% interest rate on the previous year. Mr. Harvey asked if the monies earned by the interest rate go into the fund. Mrs. Crozier explained that it went to the benefit of the employee. She explained that if the employee leaves, they take the interest with them, but in the event that they retire, then the interest becomes part of the fund. Mr. Frick asked if the fund used that 5.5% interest for itself. Mrs. Crozier replied that this was correct. Mr. Harvey asked if Mrs. Crozier thought that the interest rate being set was something close to the short term rate. Mrs. Crozier explained that right now this rate may not be considered to be that competitive, but by the same token, when the fund was in a situation where it was lower, the rate didn't change.

Lt. DeIorio asked how long the interest rate had been set at 5.5%. Mrs. Crozier explained that she did not have the answer to that at this time. She stated that she had been unable to find the first ordinance that had been passed in reference to this. She explained that she had hoped that this ordinance would indicate the rationale on which the rate was based, and at what time it should be changed.

Mr. Boggs indicated that he would like to see a policy established that would set the rate of interest. He stated that it could perhaps be tied to the past twelve months fixed income earnings. Mr. Doney explained that he felt that the actuary, Ron Smith, could probably address this. He stated that at the time the rate had been established, it had been considered to be a fair return. He further stated that those individuals who are having their contributions credited with interest at 5.5% was felt to be a fair return. Mr. Doney stated that he agreed that the history of the rate of interest should be researched, and indicated that it would be appropriate for Mr. Smith to provide his input. Mr. Boggs asked if it was really fair to the employees whose money is invested in the fund for the fund to make 22.4% for the past twelve months and the employees only receive 5.5% on what they contributed. Mr. Doney explained that the whole picture needed to be looked at, such as what the Town was picking up by way of cost of contributions towards the employees. Mr. Boggs stated that the Town's contributions also earned 22.4% for the past twelve month period. Mrs. Smith stated that there must have originally been a formula in order to have come up with the 5.5%, so perhaps if this information could be found it could be provided to the Board. Mrs. Crozier suggested waiting until the next meeting to discuss this, explaining that Ron Smith could then be present, and she would have an opportunity to pull the original ordinance. She stated that the 5.5% was only going to benefit an employee who leaves, and she did not know that the intent of the structure of the fund was to benefit those individuals who left. Mrs. Crozier stated that she believed that the fund was put into place to benefit those individuals who retire, so the only people who were actually going to be hurt from a monetary perspective would be those employees who were terminating rather than retiring. Mr. Frick explained that the point was to get an acceptable interest rate for the fact that they were forced to put their money into the system, and no more. He stated that these employees should not share in the profit, but that the fund should. Mrs. Crozier agreed, and stated that it might not seem fair to these employees, but by the same token, if they were allowed to walk away with money that was intended to be used for retiring employees, the terminating employees were reaping benefits that were being taken away from retiring employees. She explained that the reason that the fund existed was to benefit retiring employees.

Mayor Ilyinsky asked why there was an interest rate applied to these monies. Mr. Doney explained that this was information that Mrs. Crozier was going to supply at the next meeting, but he believed that it was based on information provided by the actuary. He explained that the primary advantage was intended to be for those employees who would stay with the Town and retire from the Town.

Mr. Doney suggested that it would be appropriate to postpone this item until the February 16, 1996, Retirement Board Meeting. He explained that the actuary would be attending that meeting, and he could answer some of the questions that had arisen regarding this. Mr. Frick agreed, stating that if Ron Smith were advised of this issue, he may be able to do some research and find out what other municipal funds do for this sort of thing.

Mr. Frick moved to postpone setting of the annual rate of interest to be credited member contributions to the February 16, 1996, Retirement Board meeting. Lt. DeIorio seconded the motion, and all voting aye, the motion carried.

Lt. DeIorio left the meeting at 10:40 a.m.

X. A. CONSIDERATION OF PROPOSED RULES FOR ELECTIONS

Mr. Crouse reported on proposed rules for elections, explaining that there really hadn't been any established guidelines for conducting elections. He explained that at the previous meeting, he had recommended a consideration for the board to adopt procedures to follow for future elections, and Mr.

McCracken had provided input for these procedures. Mr. Crouse explained that the recommendations made by the Board members at the previous meeting had been included in the proposed election procedures.

Mayor Ilyinsky moved adoption of the proposed rules for elections as submitted by Mr. Crouse. Mr. Boggs seconded the motion, and all voting aye, the motion carried.

B. CONSIDERATION OF AMENDING TERMS OF EMPLOYEE REPRESENTATIVES

Mr. Crouse explained that there seemed to be no specific reason for the terms of office of the Employee Representatives. He stated that he believed that this occurred as a result of appointing new members to four year terms rather than to the unexpired term of the resigning member. Mr. Crouse explained that he would like to set up a process by which there would be terms ending in some sequence that would make sense and that would always assure that there were representatives on the board who had at least two years of experience. He further stated that he would like to hold elections every two years, rather than every year. Mr. Crouse explained that his recommendation was to have elections for a Public Safety representative and a General employee representative every other year, and in order to do that, some of the existing terms would have to be extended. He stated that he did not know if the Board had the authority to do this, and asked Mr. McCracken to address this issue.

Mr. McCracken explained that the problem with this was that the ordinance called for four year terms, and he did not think that the Board had the ability to make the changes to the lengths of the terms. He stated that if the goal was to put more order into the terms of office, it would be necessary to hold more elections in 1996 for shorter terms of office.

Mr. Frick asked if the ordinance could spell out the fact that a member filling an unexpired term would have to run for office at such time as that term expired, rather than being appointed to a four year term. Mr. Crouse explained that this was the intent. He suggested that when Lt. DeIorio's term expired in August of 1996, his re-election could be for a term of two years until 1998, which would put that position on track. He stated that Karen Lane's position expired in March of 1997, and an election could be held to fill that position for seventeen months, which would put that position on target. Mr. Crouse explained that the Board could consider this to be filling unexpired terms that somehow were missed in the past. He stated that the terms could be extended by holding elections. Mr. McCracken explained that the Board couldn't do this. He stated that the ordinance allowed four year terms and the filling of unexpired terms, and the Board could not determine any other terms.

Mr. Doney suggested that the Retirement board prepare an ordinance amending the length of terms as Mr. Crouse had recommended, explaining that this could be presented to the Town Council for their approval. He stated that he thought it made sense to have overlapping terms, with one Public Safety and one General employee representative overlapping the other positions. He explained that this would provide the Board with some continuity. Mr. Frick asked if it would be possible to have the ordinance refer to specific dates for the terms of office. Mr. Crouse stated that he would like to see this incorporated into the ordinance.

Mr. McCracken stated that it appears that notwithstanding the fact that the Retirement Board didn't have that kind of provision in the ordinance, they still do have some staggering of terms, explaining that there were new people coming in, and if they were re-elected it would be for four years. Mr. Frick explained that he was recommending that the ordinance specify which term expired when. Mr. Doney stated that based upon the experience of other boards and commissions, the enabling ordinance was set up with a seven member board or commission so that the initial organizational terms were structured so that three members served a certain number of years, two others served another period of time, and the remaining members served for a certain term. He explained that this gave the staggered terms that provided continuity and experience to the Board. Mr. Doney stated that thereafter, upon expiration of those terms, each term would then be four years. He explained that the enabling ordinance for the Retirement board just wasn't structured that way, but that this could be presented to the Town Council.

Mr. McCracken stated that this was a simple enough modification to the existing ordinance, and that it could be drawn up and presented back to the next quarterly meeting of the Retirement board, or it could be presented directly to the Town Council at their next meeting. Mayor Ilyinsky indicated that he thought it could be presented directly to the Town Council. Mr. Doney agreed, stating that Mr. Crouse could provide a cover memorandum with the proposed ordinance. Mrs. Smith suggested that the ordinance change be presented to the Town Council at their January meeting.

Mr. McCracken stated that the ordinance provides that in the event of a vacancy it shall be filled within thirty days. He explained that this was a rather short period of time in which to conduct the election procedure, and asked if the Board would consent to extending that time frame in order to provide more time for the election process. Mr. Harvey asked if sixty days would be more appropriate. Mr. Crouse indicated that ninety days would be ideal as the maximum amount of time.

Mr. Doney moved that the Retirement Board instruct the Board's attorney prepare an appropriate ordinance amendment to address Mr. Crouse's memorandum dated November 6, 1995, regarding the current terms of employee representatives and the proposed restructuring of terms as set forth, and that Mr. Crouse prepare an appropriate explanatory cover memorandum to the Mayor and Town Council in order to provide the background; and that the time period required for the filling of employee representative vacancies on the board be extended to ninety days; and that these recommendations be advanced to the Town Council at their meeting of January, 1996. Mr. Frick seconded the motion, and all voting aye, the motion carried.

Mr. Doney thanked Mr. Crouse and Mrs. Kneipp for their efforts in doing all of the research regarding this.

Mr. Harvey stated that he would like to recognize Ms. Somers, who was the Assistant to the Finance Director. The Retirement Board welcomed Ms. Somers to the Town.

Mr. Harvey stated that Mr. Wearn had been very diligent in sending a letter to Mr. Crouse regarding his views on the different items that had been discussed, and that he had even been willing to participate in the meeting via a conference call. Mr. Frick stated that he appreciated this, as he very much respected Mr. Wearn's opinions.

XI. REPORT ON DISABILITY STATUS OF RICHARD LEANDRO

Mr. Crouse explained that he had received a report from Dr. Craig Lichtblau regarding Mr. Leandro. He stated that the report had been requested in order to satisfy the reassessment of the disability, and the report maintained that Mr. Leandro could work an eight hour day, however the limitations were very stringent, and could never fit the duties and responsibilities of a Firefighter. Mr. Crouse stated that based on the ordinance, Mr. Leandro continues to be disabled from the position of firefighter. He explained that it would be appropriate to accept the report and continue Mr. Leandro's duty disability status.

Mayor Ilyinsky moved to accept the report regarding Richard Leandro's duty disability status. Lt. DeIorio seconded the motion, and all voting aye, the motion carried.

Mr. Doney asked if this would continue on a one year review basis. Mr. Crouse explained that it would unless the Board chose to waive that requirement. Mr. Harvey asked how long Mr. Leandro's case had been reviewed. Mr. Crouse explained that this was the first review for Mr. Leandro because he had only been retired for about two years. Mr. Harvey asked how many individuals were out on duty disability. Mr. Crouse explained that there were only three or four people who were on duty disability. He further explained that this review is only done while the individual is not of age for normal retirement. Mr. Harvey asked Mr. Crouse if he could prepare a spreadsheet of who these people are, when they retired on disability, the age they could retire, and how many times their condition had been reviewed. Mr. Crouse explained that he would be happy to provide this information to the Board.

XII. REQUEST FOR APPROVAL OF RETIREMENT APPLICATIONS

A. Mr. Harvey asked if all was in order with the Retirement application of Leslie Penfield of the Public Works Department, with 21 years and 1 month of service. Mr. Crouse reported that all was in order. There being no discussion, Mr. Boggs moved approval of Leslie Penfield's application for retirement. Mrs. Smith seconded the motion, and all voting aye, the motion carried.

B. Mr. Harvey asked if all was in order with the Retirement application of Frank Agnew of the Public Works Department, with 20 years and 7 months of service. Mr. Crouse reported that all was in order. There being no discussion, Mr. Frick moved approval of Frank Agnew's application for retirement. Mr. Boggs seconded the motion, and all voting aye, the motion carried.

C. Mr. Harvey asked if all was in order with the Retirement application of Sam Scott of the Police Department, with 25 years and 4 months of service. Mr. Crouse reported that all was in order. There being no discussion, Mr. Frick moved approval of Sam Scott's application for retirement. Mr.

Boggs seconded the motion, and all voting aye, the motion carried.

XIII. ANY OTHER MATTERS

Mr. Harvey asked if there were any other matters to be discussed. There were none.

XIV. ADJOURNMENT

Mr. Frick moved adjournment of the meeting. Mr. Boggs seconded the motion, and all voting aye, the meeting adjourned at 11:05 a.m.

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John DeIorio, Secretary

FUTURE MEETINGS:

Friday, May 17, 1996, 9:00 a.m.
Friday, August 16, 1996, 9:00 a.m.
Friday, November 15, 1996, 9:00 a.m.