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Document Name	AugMinutes102001GenEmp	Subject	August 2001 General Employees Retirement Board Meeting Minutes	Date	Fri 08/10/2001
Directory	Retirement	Type	Minutes	Category	Retirement

GENERAL EMPLOYEES RETIREMENT BOARD MEETING
FRIDAY, AUGUST 10, 2001, 9:00 A.M.

I. CALL TO ORDER

General Retirement Board Meeting 08/10/01
The meeting of the General Employees Retirement Board of Trustees was called to order by Chairman James McC. Wearn, at 9:00 a.m., August 10, 2001 in the Town Council Chambers.
Attending were Chairman James McC. Wearn, Vice-Chairman Robert Garvy, Secretary Vernon Richards, and Trustees Charles Boggs and Peter Elwell. Also attending were Board Attorney John McCracken, Finance Accounting Supervisor Amy Wood, and Human Resources Director and Plan Administrator William Crouse.

II APPROVAL OF AGENDA

Mr. Wearn suggested that the surplus talked about at the June 20, 2001 special meeting be discussed further as to whether to consume or build the surplus. He suggested that they have this discussion between Item 8 and 9 on the agenda. Mr. Boggs stated that he had attended the Public Safety meeting on Thursday, August, 9, 2001, and that the actuary had brought up several comments that would possibly cover this subject in better detail, so perhaps it would be better to put it on the agenda at that time. Mr. Boggs asked to withdraw Item 9 from the agenda. Mr. Wearn asked for clarification as to whether he meant to withdraw it from the agenda or is a withdrawal of the item total. Mr. Boggs stated it was a total cancellation of the item. Mr. Garvy moved to withdraw Item 9 from the agenda, Mr. Boggs seconded, and the motion carried unanimously. Mr. McCracken inquired about deferring the State Street item until the information requested arrives, as he was not sure the information would arrive before the board reached that item on the agenda. Mr. McCracken suggested it follow the reports by the actuary, but, that it needed to be handled today. Mr. Wearn stated that Item 5 would follow Item 7 and may be moved again depending on receipt of the information. Mr. Boggs moved to approve the agenda with the suggested changes, Mr. Garvy seconded, and the motion carried unanimously.

III APPROVAL OF THE MINUTES

A. Regular Meeting of May 10, 2001

Mr. Boggs moved for approval of the minutes, Mr. Elwell seconded, and the motion carried unanimously.

B. Joint Special Meeting of May 25, 2001

Mr. Boggs moved for approval of the minutes, Mr. Richards seconded, and the motion carried unanimously.

C. Special Meeting of June 20, 2001

Mr. Boggs moved for approval of the minutes, Mr. Richards seconded, and the motion carried unanimously.

IV ADMINISTRATOR'S REPORT

Mr. Crouse stated that the ordinance which changes the investment policy relative to 60% equities and 40% fixed mirroring what Public Safety Board did, was approved at the July Town Council meeting. He also stated additionally the Town Council did approve the resolution of statement of investment policy without any discussion. Mr. Crouse reported that Roanoke was advised as to the Board's approval of the movement of the fixed investment income, as well as both Board's appreciation of the service that Roanoke has provided. Mr. Crouse distributed the manager retention guidelines that were adopted at the February meeting.

VI QUARTERLY REPORTS

A. Roanoke Asset Management

Mr. Vroom presented the report for Roanoke Asset Management, the report being on file with the Plan Administrator. Mr. Vroom stated his firm was not bond oriented and that is why they have asked to have the bond fund moved from them.

B. Loomis Sayles & Co.

Mr. David Sowerby presented a report on equity portfolio and Mr. Steven Doherty presented the fixed income portfolio report, both reports being on file with the Plan Administrator. Mr. Boggs stated that he had attended the Public Safety meeting the day before and they talked about an index fund for bonds, and he felt that Loomis was a great active manager and would like to have them take the bond portfolio. Mr. Wearn stated he had felt the same way as he listened to the presentation.

C. Callan & Associates

Mrs. Jeanne Valcik presented the quarterly report for Callan & Associates, as well as the asset allocation report. Both reports are on file with the Plan Administrator. Mrs. Valcik reminded the Board that Loomis was the beneficiary of the equity portfolio. Mrs. Valcik stated that she recommended waiting to move the Roanoke funds after the transition to State Street to prevent any problems. Mr. Wearn felt it was appropriate to have a motion to defer the rebalancing after the discussion on State Street.

Mr. Boggs requested that the year to date figures would be more meaningful if they were fiscal year to date. Mrs. Valcik stated this would not be a problem.

Mr. Wearn asked for comments on the shifting of the bond portfolio. Mr. Garvy asked Mrs. Valcik for her comments. Mrs. Valcik stated her three recommendations would be a search for a new active bond manager, shift the portfolio to Loomis, or do an index fund or enhanced bond index fund. Mr. Garvy moved that the assets to Loomis, Mr. Boggs seconded. McCracken asked for a resolution on timing of the move? Mr. Boggs suggested it be sometime after State Street, Loomis, and Callan are comfortable with making the transfer. Mr. Wearn stated that was with the consideration of the reduction of fees to 27 basis points. The motion was amended by Mr. Garvy to include this consideration, Mr. Boggs seconded. Mr. Wearn asked if Mr. Doherty had any comments. Mr. Doherty verified that it meant simply shift the assets into Loomis not to sell the assets. Mr. Wearn stated it was a shift of assets not a marketing of assets. Mr. Vroom did not have a comment or concern on this issue. Mr. Wearn called the question, the motion carried unanimously.

Mr. Boggs suggested moving Item 7 and 8 to later in the meeting to accommodate employees that would be coming for those specific items. Mr Wearn suggested putting Item 7 after the break and defer Item 5 between Item 10 and 11.

VII ANNUAL ACTUARIAL VALUATION

Mr. Brad Armstrong of Gabriel, Roeder, Smith & Co. presented the annual actuarial valuation, a copy of which is on file with the Plan Administrator. Mr. Armstrong stated that the basic funding objective of the retirement system is to avoid a shifting of costs between one generation of taxpayers to another. Mr. Armstrong stated that the fund needs to be at 100% of the past service liabilities, it is not appropriate to have the fund continue to grow over !00% as this could eventually lead to no funding required by current taxpayers/employees and this would not be fair to the taxpayers/employees in the past. Mr. Armstrong stated that the State of Florida actually mandates that Boards have a level percent of payroll financing.

Mr. Garvy inquired as to how the funded ratio would move back toward the 100% when the fund is expected to achieve high rates of returns. Mr. Armstrong stated that local costs plus administrative expenses is the cost of for providing benefits for each year of service for the present active population, which does not include Mr. Crouse's office, which is not effecting the administrative expense figure shown as the fund is not being charged for their services. Mr. Armstrong also expects a trending down in the next few years which will help balance back to the 100%. Mr. Boggs stated that since the fund had shifted from 40% to 50% in equities in 1998, and this year the change is 50% to 60% equities which should effect the long term returns, should the Board look at changing the 8% or should benefits be increased or decreasing contributions to get the fund to the 100% level. Mr. Boggs stated that 5% of the 8% was for inflation, and that 5% inflation had not been seen for ten years. He also stated that the 3% increase in payroll. Mrs. Valcik stated that the reason for the 60/40 split was to get in line for an 8% return, because she did not feel 8% was attainable at the lower split.

Mr. Armstrong stated that for the General employees, the retirement payout as of Oct. 1, 2001 was about 19% of payroll, and that the total adjusted contribution requirement from the Town and the members is 12.61%, so there is 6.4% because of accumulated assets which is attributable to pre-funding.

Mr. Armstrong stated that the retirement system is in excellent actuarial condition given the level percent payroll funding objective.

Mr. Boggs made a motion to accept the actuarial report, Mr. Elwell seconded, and the motion carried unanimously.

Mr. Armstrong stated that the ordinance requires that the Board set the retirement reserve fund equal to the people on roll. Mr. McCracken stated that this was an annual motion made by the Board. Mr. Elwell made the motion and Mr. Boggs seconded, and the motion carried unanimously.

VIII REPORT ON SUPPLEMENTAL ACTUARIAL REPORTS

Mr. Armstrong presented the supplemental actuarial reports. These reports are on file with the Plan Administrator. Mr. Elwell asked for clarification on amortizing over a given period of time instead of looking to an undetermined period of time into the future. Mr. Armstrong stated that the State of Florida mandates that the longest period for amortization of long term liability for credit is thirty years. He also stated that the Division of Retirement requires it to be a closed period as well. Mr. Armstrong reported that when the schedule is changed, it is required that you set up a new base. Mr. Elwell asked Mr. Armstrong if he would be recalculating the unfunded liability every time an annual analysis is done. Mr. Armstrong stated this was correct, and also stated that for retirees it was fifteen years.

Mr. Boggs presented a multiplier increase comparison for current employees as well as retirees. Copies of this comparison are on file with the Plan Administrator. The costs in Mr. Boggs proposals of these increased benefits are based on a one day amortization process. Mr. Boggs proposed having the Town pick up the cost of increasing the multiplier to 2.75% from a 2.40% for current employees, at a cost of 2.47% of payroll for the normal cost. He also recommended the same change for the retirees, and using the surplus/float funds to cover the UAAL, allowing the excess funding to absorb those costs. He also proposed that the surplus/float cover the cost for the increase to retirees.

Mr. Armstrong stated that in order to accomplish this without any effect on the Town, there would have to be a shortening of amortization periods for the credits. Mr. Wearn inquired as to the Lifeguard's standing in these changes. Mr. Boggs responded saying that the Lifeguards would be included in the same proposals as the General employees, stating that they would go to 2.85% compared to 2.50% for future and retirees would go to 2.85% for their past service.

Mr. Garvy asked Mr. Elwell for the Town's contribution to the fund currently versus the average contribution over the past ten years, stating that there was an obvious positive budgetary effect as that contribution comes down. Mr. Elwell stated that it had come down, stating that he could only give real dollars for this current fiscal year, the decrease from the year now to the coming fiscal year for both the Public Safety and General employees is about $1 million. Mr. Elwell stated that a $280,000 decrease is for General and Lifeguards. Mr. Garvy inquired as to the Town Council having to improve any change and Mr. Elwell stated that they would. Mr. Garvy asked Mr. Elwell if he had any idea what the Council might say to Mr. Boggs recommendations. Mr. Elwell stated he could not predict what the Council action would be.

Mr. Boggs stated that the Town went from a contribution of about $4500 for each employee in fiscal 99/00, to $3600 per employee for fiscal 00/01, to $2400 per employee 01/02. Mr. Elwell stated that the period ending now where the four year averaging is going to start to bring in some numbers that are not as encouraging.

Mr. Elwell stated he sits on the board as both a contributing member of the retirement fund as a Town employee and also as the Town Manager. He urged caution and responsibility when deciding what will benefit the employees and not put the Town at undue risk as well.

Mr. Boggs asked if Mr. Elwell thought the Council would view the comparisons as he did as far as showing where other Town's multipliers are currently and want to stay with the top quartile standard they have set. Mr. Elwell stated that he would like to know what the other communities contribution rates are to verify that the Town has fallen behind from a competitiveness standpoint.

Mr. Robert Moore, Director of Planning, Zoning, and Building, stated that he was in the DROP program, stated that the funds being discussed today, in his understanding, were surplus funds due to being over the 100% desirability for a solid retirement plan. Mr. Moore stated that being funded at 100%, that should a surplus be available that that surplus should be shared amongst both payers, not just the Town and not just the employees.

Mrs. Pollitt, Town Clerk, concurred with most of Mr. Moore's remarks and wanted to thank the members of this Board, particularly Mr. Wearn and Mr. Garvy, as non-paid members who come and give their time and valuable input. She stated that her department hands out the checks to the retirees and that it would mean a lot to these people to receive the extra .35%, they are so proud to have worked for this Town and this extra would just make them feel so much more appreciated.

Mr. Spencer Wilson, Information Systems Manager, shared his appreciation to the Board as well as concurring with both Mr. Moore and Mrs. Pollitt.

Mr. Harry Ackerman, Assistant Building Official for the Town of Palm Beach, concurred with the recommendation of Mr. Boggs, as being the most equitable way of sharing the surplus.

Mr. Wearn stated that the Town had made the decision a long time ago, that the contributions of the Town staff would be at a relatively fixed and well anticipated level, and that if there were risks in the ability of the system to fulfill the obligation, that the risk be borne by the Town. Mr. Wearn stated that whatever decision made today, be made in concept form and that as soon as Mr. Elwell has the information on the percentages of contributions made by the other municipalities, and as soon as Mr. McCracken has drafted the ordinance that implements the substance of the concept that may be approved today, that a special meeting be held to go over the information and act on it at that time for recommendation to Town Council.

Mr. Boggs stated that the only change required to the ordinance would be to change the multiplier for the years of service portion of the ordinance. Mr. McCracken stated that may be the case. Mr. Boggs stated that the ordinance would have to change to state the years of service for all years prior to 1990 to 2.35% and since 1990 to 2.75%.

Mr. Elwell stated that assuming it should be proven that this change does not need to be done for competitiveness, would this be the appropriate means to share the surplus with the employees, but, not change the benefit for the future? Mr. Boggs stated that this was probably a moot point and that in talking to FPPTA members the 2.75% is going to be a competitive issue, and that increasing the multiplier retroactively is very important to both current and retired employees.

Mr. Boggs made the motion to approve in concept, Proposal 1 and Proposal 4 to be recommended to the Town Council as for change in ordinance as per the actuarial studies, with the Town assuming the risk of increases in contributions, hoping this does not happen, but, hoping to proceed with having the ordinance written and if further information is needed before final approval, then have a special meeting to do the final approval at everyone's convenience.
Mr. Elwell asked Mr. Boggs if it would be acceptable to change the motion to request that the ordinance be drafted reflecting your proposal and that additional information be gathered to review the competitiveness issue and then as soon as possible have a special meeting to determine if in fact that is the course the Board wishes to follow. Mr. Boggs agreed. Mr. Elwell then seconded the motion. Mr. Wearn asked if there was any contribution sharing between the Town and Town staff for the future. Mr. Elwell stated there was not at this time. Mr. Wearn then asked if the competitiveness information would only be for the five municipalities shown in Mr. Boggs handout. Mr. Elwell stated that getting more than the five would be better and would not take any longer to gather. Mr. Boggs stated that it was not easy to gather this information as most municipalities have gone to a defined contribution plan and Mr. Elwell stated that some had gone to the Florida Retirement System. Mr. Garvy stated that most defined contribution plans in the country do not have any contribution made by employees in the private sector. Mr. Wearn stated there was a motion for the review of the contribution be made and the request for a draft of the ordinance in concept on the Proposals 1 and 4, for both General Employees and for

Lifeguards. Mr. Elwell asked for clarification that the motion not be limited simply the contribution, but to include the issue of competitiveness be compared to other plans as well. Mr. Wearn then called the question and the motion carried unanimously.

IX REQUEST TO ELIMINATE OR REDUCE THE TWO PERCENT REDUCTION IN PENSIONS FOR GENERAL DROP PARTICIPANTS (WITHDRAWN FROM THE AGENDA)

X REQUEST FOR RETIREE HEALTH CARE SUBSIDY PROGRAM FOR GENERAL RETIREES

Mr. Boggs passed out a handout, is dated April 20, 2001, it shows the percentage each retirees pension that goes to cover healthcare deductions. Mr. Boggs asked for a supplemental actuarial evaluation to find out what the cost of instituting a ten dollar a month payment to retirees for each year of service, example: if you had twenty years of service you'd get two hundred dollars a month. Mr. Boggs stated that this type of study had just been completed for Public Safety. Mr. Armstrong stated it was allocated to post retirement healthcare, but, he did not feel it was a requirement that it be spent on healthcare. Mr. Boggs asked that the study be ready by the November meeting. Mr. Wearn asked for a motion that the actuarial report be to the Board at the regular November meeting and if possible, two weeks prior to the meeting, and that the cost not exceed $1000. Mr. Boggs made the motion, Mr. Elwell seconded, and the motion carried unanimously.

V REPORT ON STATE STREET CUSTODY AGREEMENT

(Moved from earlier position on agenda)

Mr. McCracken reported that the proposed contracts submitted by State Street were basic form contracts. He felt that two provisions of the contract were troublesome from the Board's perspective. The first related to indemnification of State Street for certain acts for which Mr. McCracken stated he took the position that the Board was not going to indemnify State Street for those acts and that under Florida law, the Board could not do so, since the bank involved was a Boston bank. Mr. McCracken stated that State Street's response was not flexible and did not offer any modification of their position. The second issue of concern was the matter of choice of Massachusetts law and a choice of venue being Massachusetts, to which he told them that the Board would not be put in a position where the choice of venue would be Boston if the Board was involved in litigation. Mr. McCracken stated that at first State Street was inflexible on this issue as well, but, they were more willing to talk about this issue. Mr. McCracken stated that he had asked Mr. Wearn to become involved in the controversy because as Chairman, he would be expected to sign the contracts and as he was also a lawyer with considerable knowledge of these issues.

Mr. McCracken stated that he sought out other Board's who use State Street as their custodian, and found out that they were not made to agree to what was submitted to this Board. He then asked each of them to send copies of their contracts to him. Mr. McCracken stated that the contracts did have these clauses in them and that these other groups had not read the contracts thoroughly and had signed them.

He stated that the language was buried in standard form paragraph without any headings bringing attention to them. Mr. McCracken stated that the City of Coral Springs addressed both of the same issues and had the paragraph on indemnification rewritten, as well as the choice of law and venue provision. Further research showed that modifications had been done in the past that had not been shown to Mr. McCracken. He stated that he told State Street that Palm Beach would accept the same contract as Coral Springs received, who reluctantly agreed to the indemnification changes. Mr. McCracken stated that the choice of law and venue changes he requested, had been decided that should there be any litigation it would be in the 15th Judicial Circuit of Florida. State Street would not consent to a section in the Coral Springs contract in regards to the standard of care for the custodian and the acts of the custodians, to be evaluated based on Florida law. Mr. McCracken stated they want that evaluated on Massachusetts law, and he did not regard that as unreasonable as their case law is more institutional oriented and more refined, rather than customer oriented as is Florida.

Mr. McCracken went on to explain the set up of Massachusetts law compared to Florida law in regards to banking and custodianship as provided by State Street. After this he stated that the contract was perfectly acceptable.

Mr. Wearn stated that his initial problem was a governmental body employer being governed by law from another state. Mr. Wearn also wanted State Street to furnish a direct explanation of what the standard of care would be evaluated under. Mr. Wearn felt the explanation provided was not what he wanted and gave thought to having the Attorney General of Florida look over the contract to make sure it is void or voidable. Mr. Wearn also stated that the Public Safety Board has moved ahead without concern and that the timeliness of getting things in order for the transfer were necessitating swift action, he did however want to bring up these points.

Mr. Boggs stated that this was not a big issue for him, he felt severing the ties with First Union at any cost was the way to go. Mr. Garvy stated that there would be no guarantees that another custodian would not have the same criteria in their contract, but, felt that they should move on as well with State Street. Mr. Elwell stated that he shared Mr. Wearn's concern as to why State Street was making this such a big issue, but, he also felt there was a relatively low risk involved and wanted to proceed. Mr. Wearn understands that they do have the recommendation to go ahead with the contract. Mr. Garvy moved that the State Street contract be executed as currently negotiated by the attorney. Mr. Boggs seconded. Mr. Wearn stated that the motion authorizes the Chairman to sign. Mr. Wearn called the question and the motion carried unanimously.
Mr. Wearn stated that it was appropriate to terminate the First Union custodian arrangement and contract at this time. Mr. McCracken furnished the letter of termination to be mailed to First Union. Mr. Garvy moved to authorize Mr. Wearn to sign the letter of termination, Mr. Boggs seconded, the motion carried unanimously. Mr. Boggs commended Mr. Wearn for signing the contract even though he had concerns on certain issues.

Mr. Elwell made a motion to authorize State Street, Callan, Loomis, and the Finance department be the four parties agree on the appropriate time to move forward with the rebalancing. Mr. Garvy also suggested putting in the motion, the change in asset allocation and including Roanoke in the group as well. Mr. Elwell agreed. Mr. Boggs seconded the motion. The motion carried unanimously.

XI REPORT ON QUARTERLY EXPENDITURES

Ms. Amy Wood of the Finance Department presented the report on quarterly expenditures. Ms. Wood asked for a transfer of funds from the money managers, in the amount of $350,000 to cover an anticipated shortfall. Mr. Boggs inquired as to whether these funds could be taken from the cash reserves of Roanoke. Mrs. Valcik stated that this was a very good suggestion, as that money was going to be taken away anyway, and rebalancing in that direction. Mr. Boggs asked that Roanoke be informed so as not to reinvest these funds. Mr. Boggs made the motion to transfer funds from fixed income assets from Roanoke, and approve the report. Mr. Garvy seconded, the motion carried unanimously.

X DISCUSSION OF CONTINUING EDUCATION FOR BOARD MEMBERS

Mr. Wearn stated that he has raised this issue before regarding FPPTA (Florida Public Pension Trustees Association) schools that are held quarterly. Mr. Wearn reported that both boards had issues with attending these schools, getting registered and funded, and felt that alternatives need to be considered. Mr. Wearn inquired as to whether these schools were offered locally. Mr. Boggs stated it was difficult to attend these meetings as you need board approval, by the time approval is given it is too late to make reservations and to receive favorable rates at hotels. Mr. Boggs stated that it would be better for the board to authorize the administrator to approve an annual attendance to one of these schools by each board member following the Town's travel guidelines, as this would allow early reservations and more agreeable rates.

Mr. Garvy stated that the programs held by FPPTA are very different from institutions of higher learning, as they are more focused practical guides on retirement matters, investment matters, therefore, he felt the FPPTA would offer a greater benefit and information. Mr. Elwell stated that he concurred with the suggestions, due to continuing education and making the board members more effective, both individually and as a team, and that a blanket approval to make the process as easy as possible was the best way to do so. Mr. Elwell stated that the blanket approval be limited to only include FPPTA and that the dollar amount. Mr. Garvy stated he agreed at this time, but, felt that other venues be considered at a later time. Mr. Boggs suggested allowing the Administrator approve all travel requests for FPPTA and any other schools or seminars be brought in front of the Board in the form a motion. Mr. Elwell seconded, and the motion carried unanimously.

XII PRESENTATION OF ACTIVE VERSUS PASSIVE

Mr. Garvy gave a presentation on active versus passive management. Copies of his handout are on file with the Administrator. Mr. Garvy stated that almost 40% of the fund's domestic equity is managed passively. He reported that almost 8-9% of all the institutional equity assets are now passively managed, so the Town's movement to 40% is consistent with the trend. Mr. Garvy reported that the primary reason for moving into passive management is the result of passive managers, represented by the S&P

500 have outperformed over 50% of active managers during the last 17 years. The second major reason is the astounding size of the assets, that it is difficult to hire enough active managers to manage these assets. The state of Florida, for example, is over one hundred billion dollars, with 60% committed to equities, which would mean dozens and dozens of managers to invest and manage sixty billion dollars. The third major consideration is cost. Typically active management is ten times the cost of passive management.

Mr. Garvy suggested moving some of the passive assets from the index orientation to either the existing managers or moving to an arena called enhanced indexing, which is market light, low risk, non-aggressive management; this would be different from Roanoke and also very different from Loomis in that it does not have a value or growth orientation or doing core equity manager or doing nothing.

Mrs. Valcik stated that she preferred enhanced indexing as the number one option for this fund and that core would be the second. The Board discussed the presentation and the actions that were suggested as far as to maintain a strong balance. Mr. Wearn stated that he would prefer the active management, then just the index. Mr. Garvy suggested that Callan take today's discussion and look into enhanced indexing, and report back at the November meeting with a proposal for a search for enhanced indexing. Mr. Boggs suggested that Callan look at the mix as far as how much in small cap, how much in value. Mr. Wearn stated that he felt this was an intrical part in the decision.

XIV APPROVAL OF RETIREMENT APPLICATIONS

Mr. Crouse reported there were two requests for retirement. The first being Louis Post, Wastewater Operator I, who meets the condition of age, with 21 years, 3 months. Mr. Boggs moved for approval, Mr. Richards seconded, the motion carried unanimously.

The second request is for Hector Gonzalez, who had deferred his retirement from December, 1989, he becomes eligible this month regarding his age, with 10 years, 4 months of service. Mr. Boggs moved for approval, Mr. Richards seconded, and the motion carried unanimously.

XV ANY OTHER MATTERS

Mr. Elwell commented that they were to go back to the State Street additional services. Mr. Wearn stated that that was correct and that they did need to go over that. Mrs. Valcik stated that this could be brought up at the next meeting as State Street would be attending to report on the transition. Mr. Elwell stated that this was acceptable to him, so Mr. Wearn deferred this until the next meeting.

XVI ADJOURNMENT

Mr. Boggs moved for adjournment, Mr. Elwell seconded, the motion carried unanimously.

Approved:_____________________________

Vernon Richards, Secretary