GENERAL EMPLOYEES RETIREMENT BOARD MEETING
May 9, 2003, 9:00 A.M.

I. CALL TO ORDER

The meeting of the General Employees Retirement Board of Trustees was called to order by Chairman James McC. Wearn at 9:00 a.m., May 9, 2003, in the Town Council Chambers. Attending were Chairman Wearn, Vice Chairman Robert Garvy, Secretary Patricia McLean, and Trustees Peter Elwell, and Brett Madison. Also attending were Town Attorney John Randolph (in lieu of John McCracken), Finance Director Jane Skittone, and Human Resources Director and Plan Administrator William Crouse.

II. APPROVAL OF AGENDA

Mr. Garvy requested that a discussion of hedge funds be place on the agenda. Mr. Wearn designated this item to be discussed under Any Other Matters.

Mr. Elwell moved approval of the agenda, as amended, Mr. Garvy seconded, and the motion carried unanimously.

III. APPROVAL OF MINUTES OF REGULAR MEETING OF FEBRUARY 14, 2003

Mrs. McLean moved approval of the minutes, Mr. Garvy seconded, and the motion carried unanimously.

IV. ADMINISTRATOR'S REPORT

Mr. Crouse stated that the annual death records cross check completed in February reported no discrepancies. Mr. Crouse also stated that there were no retirements for this quarter. Mr. Wearn referenced that at the previous retirement meeting the Board had approved a Statement of Investment Policy which was to be presented to the Town Council as a recommendation. Mr. Wearn questioned whether the Town Council had acted on said policy. Mr. Crouse responded that the final draft had been received, and that the policy was prepared to go before the Town Council at the June meeting.

Mr. Wearn thanked Mr. Crouse for the administrator's report.

V. PRESENTATION ON FLORIDA SUNSHINE LAW

Mr. Randolph presented a brief overview of the Sunshine Law to the Board. Mr. Randolph continued to explain that the Law specifically states that all meetings of any Board, Commission or Municipality at which official acts are to be taken, are declared to be public meetings, and no resolution, rule or formal action shall be taken except at those meetings. These meetings must be open to the public, there must be minutes taken at the meetings and there must be notice of the meetings. Mr. Randolph stated that those are the three requirements of the Sunshine Law.

Mr. Randolph stated that from the standpoint of how it affects the Board, this Law does not keep members and representatives from speaking one on one to members of the staff. The Law also does not refrain the members and representatives from speaking one on one to the Attorney of the Board. However, the Law does refrain members and representatives of a Board and Commission from speaking one on one to any fellow members regarding business of the Board with fellow members of any kind. This communication includes talking on the telephone, written correspondence and electronic correspondence. It is not to be construed that the members cannot speak about items which are not related to the business of this Board, however anything that is related to the business of the Board, the members must avoid talking to each other. There are many ramifications to this Law, many involving perception. The members should avoid talking to each other during breaks. It is not to be construed that the members should be antisocial, however simply make sure that when there is a conversation, that it is not regarding business that is going on that day. Often times, members are seen whispering to each other during a meeting, and those that observe wonder whether they are discussing how they plan to vote in regards to a particular matter. To the extent possible, this needs to be avoided. The members should only have discussions related to the business at these meetings.

Mrs. McLean expressed that she is under tremendous pressure to produce a newsletter to inform the employees of the contents of the retirement Board meetings. However, she felt very reluctant to put anything in writing.

Mrs. McLean also expressed her concern that the minutes of these meetings are not readily available to the members for three months, although it is understood that a publication of the unapproved minutes would not be wise and it could even be a violation of the Sunshine Law. Mr. Randolph stated that although the minutes are public record, it is a matter of policy for the Board to determine whether or not it is a wise decision to circulate unapproved minutes throughout the Town employees. There may indeed be room for error and perhaps some miscommunication in the event they were to be circulated.

Mrs. McLean then questioned how the representatives are to respond to employees who request specific information, as it is possible for the representatives to be in the position of interpreting or possibly misinterpreting what is taken place in this Board. Mr. Randolph stated that as an individual and as a representative of the employees, Board members were entitled to speak to the employees in regard to what happened during the meeting, and give their view point in regard to what happened. Also, they may indicate that in the event they do not feel comfortable in doing so or they do not feel that they can give a satisfactory explanation, simply direct the employee to the unapproved minutes of the meeting, located in the Administrator's office. However, Board members must inform employees that the minutes are not yet the formal determination of the Board.

Mrs. McLean then questioned whether it would be in keeping with the Sunshine Law if the Board were to post the unapproved minutes on the website, marking them as unapproved. Mr. Randolph stated that again it would not be a Sunshine Law, but that would be a policy matter for the Town to determine whether it wants to post something that has not been approved on its website. It would be a recommendation of this Board, with ultimate approval by the Town Council.

Mrs. McLean then questioned the availability of the agenda prior to the meeting. Mr. Randolph stated that the Sunshine Law requires the Town to advise the press as to the date, time and place of these meetings. Mr. Elwell clarified that the Town maintains a list of meetings that is continuously updated that are the various meetings of all of the Boards and Commissions of the Town as well as the Town Council and that is attached to the Town Council agenda each month. He continued to explain that it is also maintained on the website and it is distributed every time to the media. Mr. Elwell continued to explain that there is not one thing about the meetings that were not open, obvious and scheduled quarterly every year. Mrs. McLean clarified that the concern is not so much with the date, but with the availability of the agenda prior to the meeting and the availability of the unapproved minutes shortly after the meeting, if that was possible. Mr. Wearn commented that the meetings are identified at least a year in advance through the administrator, and the practice has been through the administrator to provide the Board members with a full package of the proposed administrator's agenda and with all of the materials that have been collected for the meeting a week in advance of that, so that if there were any questions, the information could be disseminated to the employees who are interested along with the agenda marked as unapproved as it exists at that time. He stated that as a Board and as a Town, it is possible, through the Administrator to post a "Tentative Agenda" on the website approximately a week in advance of the meeting. Mr. Elwell strongly urged the Board to stay with the Town-wide policy, as the Board was cautioned by the Town Attorney that the minutes be posted on the website and get broadly distributed only when they have been approved, not when they are tentative, as they would not be the official record of the meeting.

Mrs. McLean then questioned the contents of the agenda, as to how specific it needs to be. Mr. Randolph stated that under the Sunshine Law, there is no specific regulation or rule which indicates that the public needs to be advised of every item that may be discussed at a particular meeting. The administrator simply a representative of the Public Works employees, 95% of the department does not have computer access. Mr. Madison then questioned whether it is permissible to make a copy of the "Tentative Agenda" and make it available to the Public Works employees, and also, once the minutes are approved and posted, is it permissible to make a copy and offer it. Mr. Randolph stated that this would all be appropriate.

Mr. Wearn questioned how the Board complies with the notice of the meeting, as the Town had posted on the board a 9:30 a.m. meeting as opposed to a 9:00 a.m. The time had reached 9:30 a.m., and no action had been taken other than administrative type of actions. Mr. Wearn questioned the formal requirements in regards to giving notice to the public of the meetings. Mr. Crouse stated that the posting was done by the Clerk's office, and the meetings had been historically posted at 9:30 a.m. and the change was not noticed. Mr. Crouse then stated that the Clerks' office would be notified and the correct time would be noted.

There being no further questions, the Board members thanked Mr. Randolph for his brief presentation.

VI. CALLAN & ASSOCIATES

A. Quarterly Report

Jeanne Valcik of Callan Associates appeared before the Board and presented the performance report through March 31, 2003, a copy of which is on file with the Plan Administrator.

Ms. Skittone referenced page five of the report and stated that the funds are under $2.2 million for domestic equity and questioned whether the Board should consider re-balancing. Ms. Valcik stated that the funds are right at the level of re-balancing, as the guidelines state 5%. Ms. Valcik then stated that the Board needs to have a discussion of where it stands in respect to their managers and then decide what will be done and then discuss the re-balancing.

With no further questions, the Board thanked Ms. Valcik for her presentation.

B. Discussion of Loomis Sayles "watch" status

Jeanne Valcik of Callan Associates appeared before the Board and distributed a memorandum dated March 7, 2003 regarding Callans' onsite visit at Loomis Sayles in Boston. Ms. Valcik then asked the Board to read the memorandum prior to discussion. A copy of the memorandum is on file with the Plan Administrator.

A short break was taken.

The Board reconvened at 10:03 a.m.

Ms. Valcik directed the attention of the Board to the summary of the memorandum which stated that while there were a couple of members of the team that made contributions to the portfolio, this was offset by the fact that by moving to Boston, Loomis would have more research and be a more cohesive team. The point was made that, by going forward, it was more like a new hire because the team was different than the group prior to the move.

Ms. Valcik then directed the Board to page four of the summary where there was discussion in regards to percentile rankings.

Mrs. McLean questioned whether Loomis Sayles has an insurance policy that would cover an outright criminal act such as with WORLDCOM. Steve Dougherty of Loomis, Sayles & Company responded that WORLDCOM was the seventh largest company in the United States. WORLDCOM had $33 billion of debt outstanding, one of the largest issuers of bonds in the marketplace. In a situation like this, where there is fraud, Mr. Dougherty stated that an insurance company would not pay out per say on that. Also, due to the situation of WORLDCOM, the assets of the company do not hold the value as they did before, and therefore there was really nothing to go after from a standpoint of someone who had been harmed. Loomis did not want to take their clients through a bankruptcy. Originally, it was a $3.8 billion fraud, it is currently over $11 billion. There are no changes, it is just what Loomis is discovering, and we sold out of positions completely, the entire firm, as soon as we came out.

Mr. Dougherty then appeared before the Board and presented the performance report through April 30, 2003, a copy of which is on file with the Plan Administrator.

Kurt Wagner of Loomis, Sayles & Company appeared before the Board and discussed the structure of the core portfolio management team. Mr. Wagner stated that Loomis Sayles was confident that the move to Boston would improve the investment process. Mr. Wagner assured the Board that the enhanced access to the research, enhanced access to the other investors in Boston, the moving of all the investment professionals into the Boston office would do nothing but enhance the team's performance. Mr. Wagner stated that if he did not believe that this was the case, he would not have moved his family from Chicago to Boston.

Mr. Elwell asked Ms. Valcik's opinion regarding whether she had lingering concern about the asset decline that had been seen or whether it was felt that the Board should have a positive expectation that it would reverse and that the comfort level would only grow with Loomis. Ms. Valcik responded that her belief was that many of Callan's clients had terminated Loomis, however those who were going to terminate had already done so. Mr. Dougherty clarified that most of the terminations that Loomis had experienced had been in those core plus accounts that had the component of high yield.

Mrs. McLean stated that much had been said on the additional research available in the new office, however, Mrs. McLean questioned the concern of whether there was a problem with the prior research already being performed. Mr. Wagner responded that it was not additional research, however, by putting everyone in Boston, the relationship with the research staff would be much more integrated, much more give and take, face to face meetings, and sitting down discussing bonds in a more interactive way. Ms. Valcik then confirmed that Kevin Crawford's report did say that it was enhanced usage of research and support of products.

Mr. Wearn requested the pleasure of the Board. Mr. Garvy responded that the explanations and research were both revealing and comforting. The concern was not nearly as great as before. Mr. Garvy expressed that the performance seemed to have turned around. It was yet to be seen whether this would persist. Mr. Garvy expressed that he believed the "watch" list would remain an appropriate place, however there was no reason to take any action at that time.

Mr. Elwell and Mrs. McLean agreed with Mr. Garvy's assessment.

Mr. Wearn stated that without the Board taking any action to remove Loomis Sayles from "watch", they would remain on “watch”.

Mr. Wearn expressed that there had been questions on whether the Board should re-balance. Ms. Valcik stated that according to the guidelines the Board should re-balance. Mr. Garvy questioned the amount that would be involved in the re-balancing. Ms. Skittone stated that according to the report, the amount showed $2.3 million that would need to go into equity. Ms. Skittone questioned whether the S&P index fund would be an option. Ms. Valcik responded that it would not be a bad idea. Mr. Wearn agreed and stated that there was a need to re-balance. Mr. Wearn stated that there was some uncertainty as to the whole asset allocation. Mr. Garvy recommended that the Board re-balance and the monies be put in the enhanced index fund.

Mr. Garvy moved to re-balance and move $2.3 million to the enhanced index fund. Mr. Elwell seconded, and the motion carried unanimously. A clarification was then made to re-balance to the target percent, according to the April report, and both the motion and second concurred to that clarification.

With no questions or comments from the Board, Mr. Wearn thanked Ms. Valcik for her presentation.

VII. ANNUAL ACTUARIAL VALUATION

Brad Armstrong of Gabriel, Roeder, Smith & Company appeared before the Board and presented the actuarial valuation report through September 30, 2002, a copy of which is on file with the Plan Administrator.

Mr. Armstrong stated that the Town’s contribution rate went up substantially. Mr. Armstrong proceeded to explain the reasons why the rate changes in the manner that it does from one report to another. Mr. Armstrong then stated that the report being presented was for the fiscal year beginning October 1, 2003 ending September 30, 2004. The rate went up to $1.6 million. The increase is approximately $570,000 from last year.

Mr. Madison questioned the supplement, whether the $8.7 million included last year’s losses or if it was just this year’s losses. Mr. Armstrong responded that last year’s losses were rather small, and as a result, it was included, but as the State views it, the Town is permitted to pay them off, so to speak.

Mrs. McLean stated that at one point, the fund was referred to as over funded at 115% and questioned the current standing of the Town in terms of that figure. Mr. Armstrong referred the Board to page E-1, where it showed 98.6%. Mr. Armstrong proceeded to explain that as disappointing as it may seem, the true long term objective of the retirement system is to try and stay as close to 100% as possible. From an actuary’s point of view, this is not a cause for concern. Mr. Armstrong explained that there are only two causes of concern. The first would be if the Town either failed to make the contribution requirement or unnecessarily delaying the contribution requirement. The second cause for concern would be cash flow. Mr. Armstrong then referred the Board to page C-5 to further explain the statement.

Mr. Armstrong stated that he had written an article, not specific to the Town's situation, but a similar discussion on the rate of return assumption itself. Mr. Armstrong requested to distribute the article as "receive and file" and the Board agreed. Mr. Armstrong stated that he found it very interesting and helpful. Mr. Wearn favored Mr. Armstrong's report and comments.

Ms. Skittone stated that in the highlight, Mr. Armstrong indicated that next year, the employer contribution would most likely go up once again. Ms. Skittone questioned if the Town were to meet the 8% assumption, how much the employer contribution would increase for next year. Mr. Armstrong stated that it would probably be $250,000.

Mr. Armstrong stated that the Public Safety Board requested a report to show 0%, 2%, 4%, 6%, 8% and 10% market returns over the period that would end September 30, 2003, other experience as expected and what the expected dollar contribution would be in the next report. Mr. Armstrong expressed that he had agreed to do this for the Public Safety Board. Mr. Armstrong indicated that if the General Board would like to request the same report, that there would be no additional burden to make the reports parallel. The Board agreed to have Mr. Armstrong prepare such report and have it parallel to that of the Public Safety Board.

Ms. Skittone questioned whether the salary assumptions would meet the 7% this year, as the COLA was much lower. Mr. Armstrong responded that if it is less than expected, it would be an offset, in other words, it would be a gain to the retirement system. Mr. Garvy questioned the magnitude of the Police and Fire contributions. Mr. Armstrong stated Public Safety went from just under $1 million to close to $2.1 million. There was a $1.1 million increase.

Ms. Skittone distributed a funding history listing the general employees, employer funding and employee funding, since 1992. The Board then took a moment to review these numbers and brief discussion was held.

Ms. Skittone stated that she requested Mr. Armstrong to prepare a report that details the information presented, so that she may submit that to the Town Council, which shows the reasons for the increase in dollars. If it was the pleasure of the Board, Ms. Skittone offered to distribute a copy to the Board. The Board agreed.

Mr. Wearn questioned whether the Town had everything in place that needed to be in order to achieve financial goals appropriately, looking at the history, from the actuarial standpoint. Mr. Armstrong replied affirmatively. Mr. Armstrong then explained that the point needed to be made clear that in all likelyhood the Town would continue to pull away from 100% for a few years, because there were still losses that were not recognized, but that was a circumstance to be expected. As a result, it is similar to an elastic relationship around 100%. Mr. Elwell stated that the Board could rely upon Mr. Armstrong to make the same kind of summation in the future. During the next couple of years, as the Town drifts away from 100%, the Board will rely on Mr. Armstrong to continue to provide the assurance or advise the Board when a red flag appears. Mr. Armstrong agreed.

Mrs. McLean questioned that at the previous meeting a point was brought up that the DROP recipients take a 2% reduction in their pension fund in order to DROP. Parts of the ordinance refer to it as administrative fees, apparently it was built into the DROP plan that was submitted to the State. It was approved as such, and it is currently part of the Town's package. Mr. Armstrong responded that actuarial cost is not based on when people become eligible to retire, so much is based on when people actually retire. The DROPs were proposed and implemented with the intention of them being cost neutral. In the endeavor to keep the DROP cost neutral, the long-term expected returns of the retirement system were 8% when they actually set the interest credits on those DROP accounts at 7.5%. That is still considered cost neutral. If it was above 8%, then you would start paying out more than you would expect to bring in. So, cost neutral is kind of at or below. The Division of Retirement requires that you fund over the period of someone's active status. So, they view the point that somebody DROPs as the same as somebody retiring. In the case of Public Safety, Public Safety was retiring pretty close to first eligibility, so their rates of retirement were pretty high, and putting in a DROP was not necessarily affecting their behavior or the funding period. In the case of General employees, they were going beyond their first eligibility for normal retirement.

Mrs. McLean stated that she has been unable to find any other Board that has a DROP reduction. Mrs. McLean then questioned whether Mr. Armstrong was aware of any Boards that were asked to have a DROP reduction of 25%, which logically, no one would DROP. Mrs. McLean also questioned whether the Town submitted it to the State that way, or if the Town sent it and the State sent it back ordering that the 2% be implemented. Mr. Armstrong responded that a lot of it has to do with the actual behavior of the members. Historically, the Town has had very low retirement rates, people have worked well beyond normal retirement eligibility. That particular situation in some respects is unique for the Town of Palm Beach. The reduction of the 25% are out of State. They do not have the same type of DROP. Mr. Armstrong stated that he had spoken to Charles Slavin, the State Actuary, on a regular basis, and when setting up a DROP, it is normal practice to call the member and discuss the assumptions and tell them what the objective is. In certain circumstances the objective was not necessarily to make it cost neutral. If a municipality was willing to put in a DROP whether it was cost neutral or not, then clearly they could tolerate 100% in any event. Charles Slavin would look at the retirement rates and know what retirement behavior had been. After a review of the past three years, two-thirds of the members had elected DROP versus out-right retirement. As a result, there is a higher participation in the DROP than regular retirement. Mr. Armstrong continued that the Division of Retirement has very strong opinions regarding this particular aspect, and either retirement rates would have to be increased, which will increase costs, or a 2% reduction would have to be implemented. A 2% reduction in the Town's plan is roughly three to six months early retirement reduction. It may not be the least bit satisfying, but someone could work three to six more months and alleviate themselves of the perceived problem with the 2% reduction.

Mrs. McLean questioned whether the reduction is for the life of the pension or for the five year period. Mr. Armstrong responded that it is for the life of their pension.

Mrs. McLean stated that with the Self-Directed DROP, those who DROP from January forward, would not be eligible for the DROP anymore, they would be going to the Self-Directed, in other words, they would have the 2% deduction in their pension and pay 39 basis points. Mrs. McLean questioned whether there was any way possible to put an end to the 2% reduction. Mr. Armstrong responded that in regards to a change, there is no hiding from the fact that if a benefit is payed out under the ordinance that is 2% more than what is currently payed out, there would have to be some costs associated with that. Long-term assumptions have to be made as to how many people will to elect the DROP versus out-right retirement. Mr. Armstrong continued to explain that it is somewhat unavoidable that if you remove the 2% reduction, and if you file an impact statement, it would show an annual increase in the contribution requirement on the order of $25,000, a quarter of a percent increase in the contribution requirement. Given where the Town is, regardless of how it got there, if you implement a benefit change that pays out $2.00 more per $100, you have to reflect that with the State and to the Town Council. Mr. Armstrong stated that in his opinion, current DROP at 7.5% over long periods of time would truly have been cost neutral. Over decades, both DROPs are actually interchangeable. The cost referred to is what goes into those accounts, wherever they reside, whether they are still in the purview of the Town's investment decisions, or under the purview of the individual member's decision. The Town would still have to pay $2.00 more into those accounts per $100, if the Town didn't have the 2% reduction.

Mrs. McLean stated that Mr. Aguero from ICMA-RC pointed out and reiterated several times that there was zero fees to the fund. Mrs. McLean then stated that it seems odd that employees who are going to participate, are going in at no cost to the fund and yet the Town is still withholding 2% of their pension. Mr. Armstrong responded that the 2% was never intended to be construed to be administrative. Mr. Elwell expressed that whether or not it is labeled as administrative fees, it is not intended to offset administrative expenses, but rather actuarially. People can retire, become a retiree in the eyes of the system, even when they stay on as an employee in the DROP program, because they can and will do that by the very nature of the DROP, sooner than they might have been expected to actually retire for the full retirement. Mr. Elwell then stated that actuarially, it can be calculated that people will take the DROP sooner than they would have left the Town's employment as a retiree, there is a cost to us. There is not an administrative cost for running the DROP program, but there is a cost to the retirement system and the retirement fund in that the employees are going to be collecting their pension for longer and be contributing into the fund for a shorter period of time. The net of that has some impact and the 2% is in consideration of that. Mrs. McLean understood the explanation, however, she stated that she did not find the 2% deduction in any other Florida retirement system, and that most had a cost neutral clause in their municipal ordinances. Mrs. McLean expressed that she felt the Town may be at some liability by withholding 2% of someone's earned pension. Mr. Wearn then stated that the discussion was getting into a policy position, which was not appropriate from an actuarial standpoint. Mr. Wearn stated that Mrs. McLean was raising a discussion of something that should be put on an agenda and presented to the Board via memorandum. Mr. Wearn respectfully requested that if this subject was something that Mrs. McLean would like for the Board to consider, then he would welcome hearing from Mrs. McLean on this subject specifically. Mrs. McLean agreed.

Mr. Garvy questioned Mr. Armstrong regarding the number of other communities in the State of Florida that have a DROP program without the 2% in terms of percentages. Mr. Armstrong responded that there were close to 100 DROP programs in the State of Florida. He then stated that there were approximately 300 municipalities that were external to the Florida Retirement System and the chapter plans, but of those, the reductions were very rare, but in many of those cases where there was not a reduction, there was an impact statement that was filed that showed a cost. The entities absorbed those costs. Mr. Crouse stated that the one thing that forced people out early was the fact, that it was a five year DROP. With the Town, there was a two year window and it was increased to a five year window. As a result, if there was one thing in the new revised plan that would make this cost neutral, it would be that addition. Now, there is ten years in which to DROP for five. Mr. Crouse continued to explain that as a result, this pushes the window open to allow employees to do what they would have normally done. Mr. Armstrong stated that retirement systems favor this because the longer an employee works, DROP or otherwise, the longer a position is filled. As a result, fewer pensions are paid. If employees' careers spanned 20 years over a 100 year period, you would owe five pensions. If they spanned 25 years, you would only owe four pensions. As a result, you actually can pay employees more money if you have fewer retirees and still be cost neutral. Mr. Armstrong further explained that the Town had been in the DROP too short a time to know whether or not it appeared that employees' career behaviors were being impacted.

Mr. Garvy questioned whether the vast majority that did not impose the 2% reduction had larger windows to start with. Mr. Armstrong stated that the DROP period in most cases was five years. Mr. Crouse stated that those who were not familiar with the reason why there was not a reduction, is that in all of those cases where they picked up the cost element , was because it was fairly low or there was no need to be cost neutral. The Town however is different. Mr. Elwell stated that with a two-year window and a five-year window, it is actually the extra time available within which a person can select whether or not to be in the DROP program and still gain the full five years of participation. Where the State's program is a five year window, an employee is either in or out, for that exact five-year period. The Town began with the two years, that meant for any five years of a seven-year window of time, an employee could be in. Now the Town has changed that to any five years within a ten-year window of time, which is where the flexibility is. Mr. Elwell continued that based on the actuarial report received and knowing that the smoothing that the Town is facing needs a few more years of bad news even as the market recovers, it is hoped that the increases being seen during the last month is the beginning of the trend of some years of increasing prosperity. However, this is not going to help this fund for a while. Mr. Elwell stated that as a general employee member of the retirement system, as well as Town Manager, he felt that the Town had a very competitive pension benefit. He also believed the Town would be on very thin ice to consider any time in the near future changing any element of the plan, in a way that would bring known increased costs. Mr. Elwell urged the Board to be reluctant to jump into benefit improvement discussions unless there were different feelings as to the competitiveness of the Town's plan in the big picture. Mr. Wearn agreed with Mr. Elwell's observation.

With no further questions or comments, Mr. Wearn thanked Mr. Armstrong for his presentation.

VIII. DISCUSSION OF ICMA-RC CONTRACT FOR SELF-DIRECTED DROP PROGRAM

Mr. Randolph presented a brief overview of the letter originated by John McCracken indicating the three areas of concern regarding the ICMA contract. A copy of this letter is on file with the Plan Administrator.

Mr. Randolph stated that in item number three, although the fee quotes were represented as zero, they included an adjusted provision whereby ICMA may propose an adjustment on 60 days written notice if that would become necessary. Mr. Randolph stated that this particular item was discussed at length with the Public Safety Board of Trustees and if it was the pleasure of the Board, their decision could be discussed. The Board agreed that this would be beneficial.

Mr. Wearn questioned whether there would be a termination provision, if the adjustment was made. Mr. Randolph responded that this would not be the case.

Mr. Wearn then questioned whether Mr. Randolph had any opinions concerning a five-year contract binding the General Retirement Board and its future. Mr. Randolph responded that it would be a policy decision on the part of the Board. Mr. Randolph stated that during the Public Safety Retirement Board meeting, it was explained that this contract is ICMA's typical form and that this five-year provision is for all of their clients. Mr. Randolph stated that it was also explained that despite the five-year provision, there is no termination penalty in the contract. If for some reason the Town did not go forward with the full five-year term, there would not be a termination provision. Mr. Wearn questioned whether this was agreeable to be stated in writing. Mr. Randolph responded that it was already stated in writing that there was no termination provision. Mr. Wearn once again questioned the termination penalty saying that Mr. Randolph had said that ICMA expressed that there was no termination penalty, if it was terminated short of the full five-year term. Mr. Wearn clarified that his question is whether they are agreeable to stating that in the contract, if it had to be a five-year term. Mr. Randolph responded that during the Public Safety Retirement Board meeting, the Board was not happy with the solution of just accepting the five-year term with the understanding that there was not a termination penalty. ICMA clarified that it was their true intent that this would be an expectation for a five-year term. Mr. Randolph then stated that the Public Safety Board indicated that if it was not a mandate but merely an expectation, then ICMA and Mr. McCracken would able to modify the agreement so as to indicate that this was only ICMA's expectation and not a mandate on the part of the Board. This was the action taken by the Public Safety Board in regard to that particular provision as far as the timing is concerned, as they sent it back to Mr. McCracken to clarify the contract along those lines. In regard to item number three, Mr. Randolph stated that the final decision was that ICMA would remove that provision relating to the readjustment of the fees, so that the only real issue that would remain was how to handle the five-year term.

Mr. Wearn stated that he felt it would be wise to parallel the General Retirement Board contract with what Public Safety had done in this instance with ICMA. Mr. Randolph requested that Mr. Aguero from ICMA step forward to the podium to confirm that all were in agreement to the request, regarding number one, what was represented, and number two, whether ICMA would do the same thing with the General Retirement Board. Mr. Aguero stated as a point of clarification, that in respect to the specific comment as to having language to the fact that there was no penalty, it was actually the reverse. Mr.

Aguero explained that there is no such clause, therefore there is no penalty. In contract negotiations, normally there is an exchange of commitments or guarantees. In this instance, ICMA will give the Town zero administration fees up front, rather than wait for assets to grow to a certain level at which time the fee would drop. ICMA is not going to wait for that. ICMA is going to give the Town the zero administration up front, with the expectation that ICMA would be here for at least five years. In legal terms, this is considered a unilateral contract. Mr. Aguero stated that ICMA is bound to give the zero administration fees, with the Board making a promise that ICMA will be around for five years. The reason it is a promise is because there is no clause in the agreement that states that if the Town were to terminate ICMA prior to the five years, that there would be any penalty to the Board. Mr. Aguero further explained that as result, there is no language, it is simply a matter of looking at it from one side versus the other. Mr. Randolph stated that Mr. Wearn understood Mr. Aguero's explanation, that there was no penalty clause because there was nothing that stated that there was a penalty clause.

Mr. Wearn stated that his suggestion was that even though the contract was silent to a penalty clause, which meant there was none, that he wanted it to be stated positively in the contract that there was no penalty clause. Mr. Wearn stated for clarification purposes, that it needed to be understood that this is not a promise that there is going to be a five-year term, it is simply an expectation on the part of ICMA that there will be a five-year term, but that the arrangement will remain the same regardless of whether this contract is terminated within that five-year period. Mr. Wearn agreed that this disposition was fair and appropriate of the issues that had been presented by the letter. Mr. Elwell stated that he observed that it was appropriate and prudent that John McCracken was so careful in reviewing the contract and brought these issues back and that the Board addressed them, and he agreed that the Board should do this in parallel with Public Safety. To have two separate agreements for the two Boards would not make sense. This is an appropriate resolution. Mr. Elwell stated that the Board was getting the zero administration fee. The General Retirement Board has a long standing relationship with ICMA, which is why the Board thought it would be advantageous to the Town to set up the Self-Directed DROP with ICMA. The Board is doing the right thing, by being very conservative and prudent in protecting the Town by making sure that the Board is not bound by something that is beyond what needs to be bound. However, there is immediate consideration on the fee side and the Board is not having to commit to what would normally be looked for other than through the expectation language, but since there is no binding commitment for term, it would be beneficial to make sure that the tone of records of this exchange and meeting of the minds is not such that the Board would be stating an expectation that this is risky business and might need to get ourselves out of it. Mr. Elwell stated that it is good to be able to be out of it sooner than five years if a circumstance were to change that would cause the Board to think this. The Town's track record with ICMA has been good. Mr. Elwell continued to say that it was in the best interest of the Town and the employees to do business with ICMA, and the meeting of the minds that had occurred over the last couple of days had been very advantageous to the Town. Mr. Aguero thanked Mr. Elwell for his kind comments. Mr. Aguero stated that ICMA has a long-term relationship with the Town and as a result, the company felt very comfortable that there would be no reason why ICMA would not be able to work with the Town for the full five years, given the fact that ICMA had done a good job in the Board's opinion. Mr. Aguero then stated that if ICMA is going to forego any revenues up-front because ICMA is going to be at zero, then what is the expectation that ICMA should have in terms of a tenure with the Town. As a result, the agreement was drafted in that way. Mr. Aguero also stated that the contract was not custom made for the Town, it is the standard agreement that ICMA does across the country. The intent was to simply have everything spelled out in black and white, to make sure the Town knew that it was getting the guarantee of the zero administration up-front, and that will be the case. Mr. Wearn stated that everything had been well clarified.

Mr. Elwell moved to parallel the decision that was made by the Public Safety Board on Thursday, May 8, 2003, in regard to the amendment of the agreement with ICMA-RC. Mrs. McLean seconded, and the motion carried unanimously.

IX. REPORT ON QUARTERLY EXPENDITURES

Ms. Skittone presented the report on quarterly expenditures and recommended a transfer of $100,000 from fixed income prior to the re-balancing amount.

Mr. Elwell moved to accept the report and approve the money transfer, Mr. Garvy seconded, and the motion carried unanimously.

X. ANY OTHER MATTERS

Mr. Garvy requested to raise the subject of hedge funds for future discussion, as a preliminary to outline the reason for interest in this subject, to prepare the Board for future discussion about it. Mr. Garvy proceeded to briefly discuss asset allocation and hedge funds. Mr. Garvy then stated that hedge funds tended to be very concentrated in specific areas, as a result, it was recommended to have Ms. Valcik's comments regarding an analysis of funds, rather than trying to pick a particular fund. The Board could consider adding allocation hedge funds where a specialist would examine hundreds of hedge funds and pick out 10 or 11 with various types of strategies to diversify among hedge funds. Adding that component to the plan will diversify the returns, have a low coalition typically with the stock market, smooth the returns, and since there is some pressure for this 8% return assumption, typically these hedge funds have been able to return numbers, actually on average substantially above that, with a low coalition to other asset classes. Mr. Garvy further stated that if this was done carefully, it may be a vehicle that the Board should consider. It would take some time to analyze the information, but Mr. Garvy expressed that he would be willing to prepare a report or at least an outline of how the Board might go about analyzing it, if it meets the pleasure of the Board. Ms. Valcik stated that at Callan, they had recently finished fund to fund searches and were in the process of negotiating fees for smaller clients. Ms. Valcik stated that the cost was $50,000, but as the Town is a plan sponsor, permission was granted to only charge $25,000. Ms. Valcik stated that she believed it would be a very good way to proceed, if the Board wanted to take that approach. Mr. Wearn stated that the Town did not seem to be in the stage of wanting to do a search. Ms. Valcik agreed. Mr. Wearn stated that what might be ideal since Mr. Garvy had raised the item for consideration and had offered to gather materials for future discussion, the Board could possibly have a presentation on it from Mr. Garvy. Ms. Valcik stated that Callan had a fuller presentation on hedge funds, with a lot of interest in it. Mr. Wearn suggested that the Board could hear from both Mr. Garvy and Ms. Valcik at the next meeting. Ms. Valcik also stated that Callan had prepared two papers on hedge funds, one called "Hedging Your Bets with Absolute Return Strategies", an introduction to hedging, and the second called "Building a Hedge Fund Portfolio". Ms. Valcik stated that she would make sure that these papers get into the Board members' hands. Mr. Wearn questioned the Board and all agreed that it is the pleasure to agenda these two presentations for the next regular meeting.

Mr. Wearn thanked Mr. Garvy for bringing this item up to the Board for consideration.

Mr. Madison requested permission to attend a conference in June and a Trustee school in October. Mr. Madison expressed that he felt any schooling and background would be beneficial. Mr. Wearn stated that he believed it had been approved, regarding the policy established for approving tuition without coming back to the Board. Mr. Crouse stated that it is withstanding, but he would have to look at the minutes to confirm. Mr. Elwell stated that he thought this also, but just to make sure it would be good to pass a motion.

Mr. Elwell moved to accept approve Mr. Madison attending the FPPTA 19th Conference in June and the Trustees school in October, Mrs. McLean seconded, and the motion carried unanimously.

Mr. Wearn mentioned that the Board had in their possession the annual calendar of meetings. Mr. Wearn stated that it would be good to diary in advance of a meeting to be looking for the agenda and the backup, so that those who you represent can be informed of what is happening and they can be looking forward to that.

XIII. ADJOURNMENT

There being no further business, Mr. Garvy moved to adjourn. Mr. Madison seconded, and the motion carried unanimously.

The meeting adjourned at 12:16 p.m.

Approved: ______________________
Patricia McLean, Secretary