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

General Retirement Board Meeting 02/09/01

I CALL TO ORDER

The meeting of the General Employees Retirement Board of Trustees was called to order by Chairman James Wearn, at 9:00 a.m., February 9, 2001 in the Town Council Chambers. Attending were Trustees James Wearn, Robert Garvy, Vernon Richards, Charlie Boggs, and Acting Town Manager Thomas Bradford. Also attending were Attorney John McCracken, Finance Director Jane Skittone, and Human Resources Director William Crouse.

II A. REPORT ON RE-APPOINTMENT OF JAMES WEARN
B. REPORT ON ELECTION RESULTS FOR PUBLIC WORKS REPRESENTATIVE

Mr. Crouse reported that the two seats on the board that were up for appointment had been filled. He reported that the Town Council approved the re-appointment of James Wearn and that he had agreed to serve another two year term beginning March of 2001 and expiring March 2003. Mr. Crouse then reported that the General employee representative from Public Works, Vernon Richards, had been elected to serve a two year term commencing March, 2001 and expiring March, 2003.

III ANNUAL ELECTION OF CHAIRMAN, VICE-CHAIRMAN, AND SECRETARY

Mr.Boggs nominated Mr. Wearn as Chairman. Mr. Richards seconded the motion. The motion carried unanimously. Mr. Boggs nominated Mr. Garvy for Vice-Chairman. No second was necessary per Mr. Wearn. The motion carried unanimously. Mr. Boggs nominated Vernon Richards as Secretary. Mr. Garvy seconded. The motion carried unanimously. Mr. Wearn asked that all nominations be closed and that all those nominated be elected by acclamation . Mr. Bradford seconded. The motion carried unanimously.

IV APPROVAL OF AGENDA

Mr. Crouse brought attention to the number of employees in the audience who were there for Item XIII, Supplemental Distribution. For their benefit, he asked to have it moved up on the agenda. Mr. Boggs informed the Board that there would possibly be even more employees attending around 10:00 a.m., and he would like to have it moved to a 10:30 a.m. slot to allow them to hear the discussion as well. Mr.Wearn suggested that this item be handled after the break and the quarterly reports, around 10:30 a.m..

Mr. Garvy stated that the active versus passive presentation would be under Item XII, letter B.

Mr. Boggs moved the agenda be approved with changes, Mr. Garvy seconded, and the motion carried unanimously.

V APPROVAL OF MINUTES OF REGULAR MEETING OF NOVEMBER 17, 2000.

Mr. Wearn mentioned that a few editorial revisions were made to the minutes dealing with the report on motions and making sure their passage was abundantly clear. Mr. Wearn asked if there were any other additions or corrections to the minutes of the Regular Meeting of November 17, 2000. There being none, Mr. Boggs moved for approval of the minutes and Mr. Richards seconded. The motion passed unanimously.

Mr. McCracken suggested that the minutes needed to be distributed in a more timely manner, in advance of the agenda packets, and therefore, he would suggest that it was not necessary to have verbatim minutes or that there would be a way to have the verbatim minutes typed in a more timely manner. Mr. Wearn responded that verbatim minutes were not the normal practice until the last three or four sets of minutes previously, and before that they were summarized minutes. Mr. Wearn stated that the Administrator chose to go to the verbatim minutes. Mr. Crouse stated that the primary reason why they went to verbatim minutes was that at times, the complexity of the issues discussed made it difficult for an individual to sit down and try to summarize what these issues were. He stated that if the summaries were such that the reports of the money managers and various other issues could be summarized very simply, it may be possible to change the format. Mr. Crouse said that the more important issues, such as motions and specifics regarding work or projects to be completed, and presentations, could be done verbatim. In answer to getting the minutes out faster, Mr. Crouse stated that they had tried going outside to have an individual type them up and it still was six to eight weeks before the product was received. Mr. Boggs asked if the tapes of the meetings were maintained for a length of time, and stated that he did not see the necessity for verbatim minutes, and that the board members could always refer back to the tapes if any questions came up. Mr. Wearn stated he thought the tapes were required by law to be saved for three years. Mr. Wearn then asked for any other comments on this matter. None were offered.

VI ADMINISTRATOR'S REPORT

Mr Wearn had asked that the Administrator address pending items, such as the insurance report and whether the actions necessary to carry those items out had been accomplished. Mr. Crouse stated that the fiduciary liability rate agreed upon by the carrier, Arthur J. Gallagher and the Risk Coordinator was $40,729, slightly less than the amount set by the Board November 17, 2000, of $41,250. Mr. Crouse stated that the agreement has been signed and was in effect for one year. He also stated that the Town Council had approved the $250 waiver of recourse at their meeting of December 12, 2000.

Mr. Wearn asked for any comments regarding this report, and none were stated.

VII Quarterly Reports

A. ROANOKE ASSET MANAGEMENT

Adele Weisman of Roanoke Asset Management appeared before the Board and provided a brief overview of her partnership with Ed Vroom and their partnership with the Town. Ms. Weisman presented the quarterly report on the equity fund and the fixed income fund. After a discussion with Mr. Garvy and Mr. Wearn, Ms. Weisman agreed that Roanoke would provide a monthly sales and purchases summary to the Board.

B. LOOMIS, SAYLES & COMPANY

David Sowerby of Loomis, Sayles & Co., appeared before the Board and presented the equity portfolio. Steven Doherty, also of Loomis, Sayles & Co., presented the report on the Bond portfolio.

C. CALLAN ASSOCIATES

Jeanne Valcik of Callan Associates appeared before the Board and presented the quarterly report for Callan Associates on asset allocation and performance, as well as a manager analysis. Ms. Valcik stated that the First Union statement was not correct and that her report was revised just days before this meeting. Ms. Valcik stated that shw would not be using the bank statements for the next two quarters in order to save time and money. Ms. Valcik reported that the Town's fund was number one in the Callan small universe of about 80 funds and that this was quite an accomplishment. Mr. Garvy asked what Ms. Valcik thought of the bond management area of the portfolio. Ms. Valcik replied that it should be considered at a future meeting and that she would bring some recommendations. After discussion, it was decided that this would be the way to proceed. Ms. Valcik stated she would bring a presentation on the bond portfolio to the next meeting.

XIII REPORT ON SUPPLEMENTAL DISTRIBUTION FOR GENERAL

RETIREES (This section is verbatim)

Mr. Wearn: I understand from our administrator, Mr. Crouse, that we have Denise Jones of Gabriel, Roeder; who produced the supplemental actuarial report for us and I think it would be appropriate at this time to hear from her. She is on the telephone, she is not present, and therefore, it is requested that everyone speak clearly into his or her microphone so that Ms. Jones can hear us. Ms. Jones are you there?

Ms. Jones: Yes, I am.

Mr. Wearn: Very good. Can you hear us okay?

Ms. Jones: Yes, I can, thank you.

Mr. Wearn: Would you please take us through your valuation report?

Ms. Jones: Okay, I was requested to provide a supplemental report on the cost of implementing a supplemental pension distribution, similar to the provision that was recently adopted by the Town's Public Safety retirement fund. A description of the proposal is on page two of your report. Basically the provisions of the public safety supplemental pension distribution states that the total distribution, which would be what we refer to as an ad hoc payment, will be determined as of each September 30th and the amount of distribution will be the amount of investment return earned on the assets of the plan which exceed 8%, but, does not exceed 10%. So what I did as an example, if this proposal had been in effect in 1999 of last year, the recognized rate of investment return for the fund was 13.9%. Under the proposal, the amount of excess investment earnings that you could use for the supplemental pension distribution capped at 10%, valuation assumption is 8%, so the difference is 2%. Taking that 2% times the assets allocated to the general division and the lifeguards. For the general, the amount of the distribution would be $715,644. Now you will note in parenthesis that it's the forfeited portion of gains. Basically what is happening is, that those excess investment earnings over 8% resulted in an investment gain for the retirement fund. By using a portion of that investment gain for the supplemental distribution, the Town is forfeiting a portion of that gain. So the dollar amount that you see there represents the forfeited portion of the gain. Line 6 shows the total actuarial gain before the distribution for the general division, that amount $3,201,780. For the lifeguard division that was $83,328. Amortized as a percent of payroll in the 1999 valuation, that was amortized over a thirty year period, that gain represented a decrease in the employee retirement distribution by 2.31% of payroll for General and 1.27% of payroll for the Lifeguards benefit group. If we take that distribution for the General's, for example of $715,000, and pay it out, then it's no longer available as a gain, so the gain after the supplemental distribution would then be the difference between line 6a, $3,201,780 minus line 5, and that amount shown in line 7a, $2,486,136. The gain after the distribution at 8% of payroll is now 1.79% and the difference between those two dollar amounts is the forfeited portion of the gain, and that's shown in line 8a. In line 8b is the forfeited portion of the gain, amortized as a level percent of payroll, which is 0.52%. That would be the difference between the 2.31% and the 1.79% of payroll. Technically, you are not increasing the employer contribution rate in advance, but, you are using up a portion of the gain that otherwise would have been available, so the "cost" to the retirement system would be the forfeited portion of the gain, 0.52% for the General and the 0.23% for the Lifeguard group.

In the Public Safety division, for the fire benefit group, the distribution amount was divided evenly amongst the current retirees and beneficiaries. So, for example, for the General division, if the $715,644 was divided by your 104 retirees as of September 30, 1999, the allocation amount per retiree would be $6,881. In the Public Safety plan, the police members received a slightly different provision. Their allocation amount was prorated based upon how many years of service they had. If they had a whole 25 years of service, then they received the full allocation, otherwise it was prorated based on a twenty five year service retirement. Are there any questions by the board?

Mr. Wearn: Are there any questions?

Mr. Bradford: What is the rate of return that the plan assumes it will make on an annual basis?

Ms. Jones: 8%.

Mr. Garvy: If the plan doesn't make 8% a year, how long would it take before additional contributions would be required? Say if your return was 6% or 5%?

Ms. Jones: If the return is less than 8%, there would be no supplemental distribution in that year. However, by paying supplemental distributions in previous years, you are using up a portion of your "cushion" that you would have available in those years where the amount does not exceed the valuation.

Mr. Garvy: How much of a cushion do we have now?

Ms. Jones: Currently, investment experience has been very favorable, and favorable the last ten years. For example in 1999, the return was 38.9%. If the distribution plan had been in place, you would not have used all of your cushion, you'd have used up 2%. You'd still have approximately another 2% of excess that's available.

Mr. Wearn: Could you apply that question and that answer to before the past ten years? I recall when I came on the board in 1990, the ten years preceding that was substantially different then the last past ten years.

Ms. Jones: That is correct, there was a period in the 80's where the experience was not usually as favorable as it is currently. However, another cushion that is in effect is the four years smoothing of the assets and the recognized rate of return that is used for this supplemental distribution is the rate of return that is based on that smoothing of the assets.

Mr. Wearn: Are there any other questions?

Mr. Boggs: Denise, if we fall short, say we get 6% one year, does that effect the next year? If we get

14% the next year, do we still get the full 2%, or is there an adjustment for the previous year's shortfall?

Ms. Jones: I don't believe that there was a provision in the Public Safety plan to allow for a shortfall. I think Carla or Bill can state to that, they're probably more familiar with it at this point than I am.

Mr. Boggs: One other question, aren't we funded right now at about 118%? In 1990, I believe we were funded at 88% or 85%, where right now I believe 118%, so isn't there a pretty good surplus in our fund right now?

Ms. Jones: Let's see, the plan as a whole, I'm thumbing through valuation reports, the plan as a whole as of September 30, 1999 is 115% funded. The General division, if taken by itself, approximately 117% funded.

Mr. Garvy: The gain before distribution, that $3 million, $2 million for General and that $83,000 for Lifeguards, would, what we're talking about if I understand this correctly, is reducing that essentially by 22.5% in the case of General and 18% in the case of Lifeguard. Is that correct?

Ms. Jones: I didn't do those exact calculations but I'll trust that your math is correct.

Mr. Garvy: So, we're preserving 78% of the excess in the General and 82% in the Lifeguards.

Ms. Jones: That is correct.

Mr. McCracken: I think in answer to Mr. Boggs question, Bill has just gone to get the new ordinance. But, my recollection is that there was a catch up provision in the Public Safety ordinance so that, under your scenario, we'd get a distribution one year and the following year the return is 6%, let's say, there would not be further distributions until that shortfall, the 2% you fell short that given year, was made up.

Ms. Jones: For the Town, I think Mr. Boggs' question was, is there a catch up for the retirees from year to year when it's not made.

Mr. McCracken: No, there is no catch up for the retirees, but there is for the Town, if it fell short in a given year, that shortfall would have to be made up in subsequent years' performance in order to have a supplemental distribution kick in.

Ms. Jones: In addition, the State of Florida, that last paragraph there in the comments, the State of Florida also requires that if the aggregate gains and losses of all causes, not just investment gains, does not exceed the cumulative value of the post-retirement adjustments, then a supplemental distribution cannot be paid. Pursuant to the state requirements that the cost not be passed on. They implemented this provision as another safeguard because there were several retirement systems that wanted to use their investment gains to fund post-retirement increases. And the State came back and said either pre-fund them or make sure that you do not just spend your investment gains and you've got losses in other places. It's got to be gains in the aggregate before a distribution can be made, so there's basically two safeguards, one by the State and one by the Town.

Mr. Garvy: And these are gains in the aggregate, are they not?

Ms. Jones: On my report are the gains of the aggregate, yes. And if this is adopted you'll see another schedule in your already very thick report, to satisfy the Division of Retirement's requirement that we keep track of the aggregate actuarial gains and losses from the inception of the supplemental distribution provision.

Mr. Bradford: So if I may, John, the catch up provision, it appears that the catch up provision provides some protection to the Palm Beach taxpayer, would that be a fair statement?

Mr. McCracken: That is correct sir. And I'm looking at the ordinance now and it did provide for that, my recollection is correct. The experience, in the case of Public Safety ordinance, the experience must be favorable commencing with the experience with the year ending September 30, 2001 and thereafter. So any previous gain that the Board has accumulated is not figured in as favorable experience. We'll be starting this year with Public Safety.

Mr. Garvy: Denise, is there any substantial difference in the amount of over-funding in the General employees fund and the Police and Fire fund?

Ms. Jones: No, it's fairly consistent. The Police division, their funded ratio was 120.4% and the Fire was 108.5%.

Mr. Bradford: Question, it may be for Mr. Crouse or Mr. McCracken, do we know or do you know what the logic was of the Public Safety employees for the even distribution, as opposed to a percentage distribution based on contribution, or some other variable factor? Why even? Why is an even distribution utilized?

Ms. Jones: Carla or Bill can tell you..

Mr. Crouse: That was the manner in which the distribution was to be made and was put before the employee groups themselves. And it was the decision of the firefighter group to do an even distribution, it is simply the way they wanted to go, they did not want to recognize years of service, simply whoever was vested and received a retirement would receive an equal portion of whatever that supplemental pay would be. The police officers took a different approach and decided that they would want it to be based upon years of service. So those individuals with more years of service and capped at twenty-five, would receive a larger portion of the distribution than those with say ten years, the minimum amount invested. So the employee groups just took a different view of how to receive the distribution.

Mr. Bradford: So in the Public Safety case, each group has a different distribution?

Mr. Crouse: Correct.

Mr. Bradford: So if we go forward with this, I would assume that we need to hear from the General employees as to how they wish to have the distribution divvied up.

Mr. Garvy: Vernon, has that been discussed by the general employees, is there a sense on your part as to their desire?

Mr. Richards: I haven't really spoken to anyone, I think Charlie has talked to a few people.

Mr. Boggs: I've talked to quite a few of them and it's pretty much split. Of course the people with more years of service want it broken up by years of service and the people with fewer want a straight line split. The biggest factor that impresses on me, I think we need a straight split, is that we have a lot of older retirees who have a very small pension. Probably more than half of our General, I think it's 60% of our General retirees, their pension is less than $10,000 a year. That's below the poverty level, if we were to be able to give them a check for $6,881, it would double many of them's income and would have a significant impact on them. Now there are some of them that do have thirty years of service, but, there are also some that have ten or fifteen. But again, I think we need to have a vote by the General employees as to which way they want to go. That's the way Police and Fire did it, and I believe their second reading of the ordinance is next Tuesday, which is approving this plan for them.

Ms. Jones: If I may interject, I think one of the things that the Board needs to decide is what are they trying to accomplish. If you are trying to accomplish a return of purchasing power for the retired group, and this involves pensions of a group of retirees that have been retired for many years and their pensions are very small, they're small because salaries were much smaller back when they retired. And the dollar amount of their pensions, because of inflation, does not buy as much as it used to, and I have seen some other retirement systems where the distribution is based also on number of years retired, that will help those who have been retired for a long time, that are not receiving very much.

Mr. McCracken: Mr. Boggs, the ordinance was passed by the Town Council for Public Safety, January final reading, so it is in effect.

Mr. Wearn: When does it go into effect?

Mr. McCracken: It's in effect for this fiscal year.

Mr. Wearn: So it's retroactive to October 1 of 2000?

Mr. McCracken: It's only retroactive in the sense that the measuring period starts at that point, but, no payments can be made until the middle of next year.

Mr. Garvy: The middle of 2002?

Mr. Crouse: The payments are made in May of the year following the period.

Mr. Wearn: I think that is why Mr. McCracken indicated at our last meeting that the adoption of any ordinance that the General employee retirement board might wish to accomplish could be accomplished anytime during this current fiscal year and still be effective simultaneous with whatever, with what was in fact adopted for the Public Safety.

Mr. McCracken: I think that is correct sir.

Mr. Boggs: I really don't see that we need to prolong this too awfully much, this has already been approved for Public Safety, and I don't think that we want to do anything to segregate our two groups of employees. I would like to recommend that we go ahead with recommending this ...be approved to the Council and asking the General employees to vote on their preference as to which way of distributing this would be done.

Mr. Wearn: I understand. Let me just ask, though, at this point if there are any other questions for Denise Jones, by the Board? I note for the record that there are a number of members of the public present, while we still have Denise Jones here, are there any questions that any members of the public have for Denise Jones on the presentation that she made? If there are, would you please come up to the podium and identify yourself? And pose the question. (Pause) There do not appear to be any questions from any members of the public for Denise Jones. May I ask you, however, to remain on the line, available in case any do come up, until we finish this item?

Ms. Jones: Okay.

Mr. Wearn: I have one question about the vote, does the vote properly include only current employees or does it also properly include retirees?

Mr. Boggs: Police and Fire just polled current employees.

Mr. McCracken: We have taken the position that only current employees are members of the retirement system. They're categorized as retirants once they retire, so we took the position in the other incidence that it was just current employees who are eligible to vote.

Mr. Wearn: This is not really a formal vote, however, though it is an indication to the Board as to how the Board should proceed. I'm wondering what would be involved for us to get some feeling from those retirees what their position would be on it. The total number of retirees we currently have in the system are approximately what?

Mr. Garvy: 107 it looks like.

Mr. Crouse: Yes... it's... the issue, the only problem I see with it is the communication and somewhat the complexity of this, to understand that the ease of going to the current employees are their representatives meet with the employees to discuss the issues and to explain it. It's a little bit more difficult to go to the retirees.

Mr. Wearn: I realize that, one of the reasons Mr. Boggs indicated being in favor of the concept was the very low level of compensation that some retirees receive. Therefore, it was my feeling that possibly it would be appropriate to have their input prior to a final decision on the matter. Perhaps having a vote of the current employees, current staff, who participate in this plan and also some contact to retirees. I note that there are a number of retirees in the audience, including former Town Manager George Frost, and former Finance Director and a number of others. I would not want their view ignored by this board at this time.

Mr. Richards: I agree.

Mr. Garvy: I would concur with that and perhaps we can send them through the mail just as a description of what's being discussed and then option for them, those who want to respond can respond and so at least we have input from them. Is that possible?

Mr. Crouse: Oh, absolutely it's possible and the, Denise is on the phone, you gave an example of, with the General employees, of this $6881 as an even distribution. You may not know this figure, but how would it change if we, as we did with the police officers, set it based upon years of service with 25 years, just ball parking, the person with ten years vesting as opposed to the person with 25 years?

Ms. Jones: Well if the, I'm not sure I can answer that without looking at it. But, the person with 25 years would end up with a larger check than the person with only ten years. If you're still planning on distributing the same amount of money...(voice faded out of hearing distance)

Mr. Garvy: I mean, is it linear just based on the years, does the pay scale come into account at all..(unintelligible) Just based on the years, so it's a straight linear relationship.

Mr.Wearn: So that calculation would be relatively easy to make and consequently, the alternative would be relatively easy to present to the retirees and to the present staff employees.

Mr. Boggs: I think I have a problem with that, because having already gone through the votes with Police and Fire, they had the members of the retirement system who are only active employees, were the people that voted and I don't believe that we should vary from that. I understand that it's nice to have input from the people who are already retired, but they're not members of the retirement system except that they get a check from it each year. I, you know, it's nice to get an input from them, but, most of them, the ones that retired before October first, 1990, get a 1% cost of living adjustment every year, so they've lost purchasing value big time. The ones that retired after October first, 1990, get a 2% and even they have lost quite a bit. I think they will be happy with however we do decide to distribute this, and I think that we should do it in the same manner as the Police and Fire department have done so.

Mr. Wearn: Are there any other? Yes, I see that Mr. Frost has signified he'd like to address the Board, please come forward and do so.

Mr. Frost: Good morning ladies and gentlemen. Most of you know me, some of you don't. If you don't know me, you've heard about me, don't believe it (audience laughs). In a manner of speaking, Mr. Wearn, you know this better than anybody else, I have always been an employees' person. That doesn't mean I didn't make them work hard, but, I made them understand that the manager was in charge and things had to be orderly. Tom knows that too, he worked with me. I don't know who Denise is, who is Denise?

Mr. Wearn: Denise Jones is the actuary, she is with Gabriel, Roeder who serves as the Town's actuary.

Mr. Frost: Okay, I understand that, I got it. Two or three things. First of all, I'm new to this element, in that I've just recently heard of it. I commend both the Board and the Council for considering for Public Safety employees and enacting it for them and I think we should do it for the General employees. I don't know that I can speak for all the people that are here, that are General employees, but my personal observation is that it's not hard to find out what the retired employees think, they get a check every month and all you have to do is send them a questionnaire in the envelope and get their responses as to what they think, so I don't think that would be hard to do. As to how the distribution should be made, I think that, that should be up to them as well, especially the ones that are getting a thousand dollars a year, that's almost criminal. And so, I think that there should be consideration for perhaps the longevity and perhaps the amount of the pension that they're receiving, as well as the number of years they may have put in. So all those factors should play into it. And I'm not speaking for myself, because I'm a quadruple dipper and so I'm, I don't think in that text, I think about the people that I know that worked for the Town when I was here and a lot of them are back there, and some of them are not in as good a shape as some others. So I think that it's up to this board to devise a distribution method that's fair and Bill Crouse will tell you what the minimum and maximum pensions are and all that sort of thing. That's a very attainable fact. So I think that the Board should consider those people who have been retired for twenty years and are really hurting. They should also consider the people on a longevity basis and I don't think it would be very difficult to mail the different opinions on this matter. But, I do think, I do again commend you for considering this, I think it's only fair that you do it if you've done it for the Public Safety employees and I might also say that I think that the, for those of you who haven't served the Town in a paid capacity, the Town has always been pretty fair to it's employees, probably better than any city that I know, so you should not be embarrassed of what the employees are paid, but I do think that you have an opportunity here to share with them the good times that are upon us. And I think there is a mechanism in this that Tom Bradford pointed out. When the times are not so good, there's going to be no distribution. And there has to be a time for the lack of distribution to be made up to the Town's taxpayers. Thank you.

Mr. Wearn: While we just had a member of our public speak, is there any other member of the public who would like to be heard at this point? Don't be bashful. Okay, apparently not. I happen to agree with Mr. Frost's comments, I think it's very easy to get a response from the retirees in addition to an appropriate response from all of the present employees. I really don't think a formal vote needs to be held, with very much the same kind of vote document, hopefully a one page or two page document could be presented to all present employees and retirees for their input. This is not a formal matter that needs to go to a vote or that the Board is bound by any of those results. The Board has the duty to look at the results and come up with what it feels is best for the Town overall. So I think it would be good to have as much input as we can to do the fairest action that we can possibly take. So with that, does anyone wish to have any more information from the actuary at this stage? The indication is no, so Denise Jones, thank you very much, we appreciate your input and your report.

Ms. Jones: You're quite welcome.

Mr. Wearn: Thank you and we'll let you go unless you'd like to stay with us?

Ms. Jones: I will depart now and see you Board members in May.

Mr. Wearn: Good, we'll look forward to seeing you then. With that, what I'd like to ask is for us to try to have ready for the May meeting where we agenda this item, is there any concern or problem with agending this item for a decision based upon having the report back on the retirees and the current employees decision or approach as to whether they would like to have an even or uneven distribution, and additionally, I would like to see a form of the ordinance to see how it is put together. But that's probably something that is readily available. Is there anything else that we should consider at this point?

Mr. McCracken: Mr. Wearn, I just would mention one issue that was discussed by the other board, that I haven't heard discussed here, which might have something to do with the decision on how the payments were allocated. When they originally brought the presentation to the other board, the police and fire representatives, they stressed the difficulty retirees were having with increased cost of healthcare. The approach originally was that, that was an issue that all the retirees were dealing with, it was becoming very expensive for all of the retirees and that might be one of the reasons to consider more of a pro rata approach than an approach based on years of service.

Mr. Wearn: Thank you, that's a factor to consider, appreciate it.

Mr. Garvy: Mr. Chairman, I wonder, is it appropriate to withhold the vote on going forward with endorsing this action, subject to the input and the distribution. Would you prefer to wait until May to do that?

Mr. Wearn: I think we should. I think it was on the table for discussion on the report back from Denise Jones. We've heard that discussion. I think there is a little bit further information we need and we can be prepared to act on the matter in May.

Mr. Boggs: Mr. Chairman, there's been an awful lot of interest by the General employees and that's the reason we have so many retirees as well as active employees here. I don't see the point in delaying a vote when the only thing that's left to decide is the administrative function as to how we're going to split the vote up. I would like to see us approve this program for the General employees at this meeting and make a recommendation for the ordinance at the next meeting after we have a vote and poll the retirees.

Mr. Wearn: I appreciate your feeling on that, the agenda'd item is a report item, not necessarily an action item, and I really would like to have a chance before giving an approval to see the ordinance itself and see what it says and does, to be comfortable with everything, it couldn't be implemented until that time anyway. I think there's probably a good sense that we are looking to go forward with the enactment of this and the implementation of it, at this stage from what we've heard and seen.

Mr. Bradford: A question for Mr. McCracken, the ordinance has to, does it not have to include the means of distribution within the text of the ordinance?

Mr. McCracken: Yes, sir. However, as Mr. Crouse pointed out, we did have alternative methods of distribution between fire and police, so perhaps it would be appropriate for me to draw up a proposal which had alternates in it and then you might have a document in front of you at the next meeting which would be at least a working document. We could perhaps make a few changes to it and go ahead with that at that meeting.

Mr. Bradford: Mr. McCracken has touched on something that I'm concerned about. First of all I do think we need to hear from the retirees as well as the active participants, meaning the current employees on what their preferences are, but, I'm concerned that we adequately explore the universe of options that we end up sending out to them. And I seem a little fuzzy on what the options really are, I heard of two here today, one is the even split, the other is based on time of service only, I don't know if there's any others.

Mr. McCracken: Well, Denise mentioned an alternative that was based on the number of years you were retired, which would be a third issue, third alternative.

Mr. Bradford: Alright, I guess my point is, whatever those alternatives are, I just want to make sure that whoever gets together to compile them, that some thought is done, given to that and that it's properly communicated to the employees and retirees.

Mr. Garvy: I agree with that.

Mr. Wearn: Can anyone conceive of any beyond three options or three alternatives at this point?

Mr. Garvy: Are there any time constraints, John, in May, if we withhold voting on moving forward with the program subject to the means of distribution until May, are there any time implications in getting this done by October, the end of fiscal year, so that it can be implemented, paid out of the next year?

Mr. McCracken: Probably, I would think that the Town Council would want this determined at least before the end of the fiscal year. But that, we have two readings, and that would be June, July or perhaps, if you don't do it in May, that would be August, that would mean September, October, I guess you could still put it off 'til August and get it into effect.

Mr. Crouse: No.

Mr. McCracken: Well it starts getting into budget and it might be difficult if we don't do it..

Mr. Wearn: I think making a decision in May is the appropriate time. Unless there's a major problem that develops before then or at the May meeting.

Mr. Boggs: The Public Safety Board is bringing a number of items before their board today for additional benefits to be paid for, given to current employees and current retirees. We will probably be coming to the Board in May with other actions that we want the Board to consider that will need studied and I don't see the point in delaying this anymore, like I said, I would like to go ahead and take action on this today and just make the adjustment for the method of distribution for the final writing of the ordinance in May and we can send that forward. Because we're going to have other things to look at and I'd like to put this one in our pocket so we can go on.

Mr. Wearn: Understand again, I'm just not comfortable in acting on it without seeing it and seeing the alternatives and doing a conceptual approval essentially in coming back, because we would have to make a final decision on it one way or another and I think it's better to do it all at one time than piecemeal. So, is there any further discussion on the subject?

Ms. McLean: My name is Pat McLean, I'm with the Police Department in the Records Unit. I would like to concur with Mr. Boggs about trying to put this one in our pocket, a lot of us showed up today, we have a lot of concerns. We're here on our own time, we probably can't make the next meeting, and even on the methods of distribution might be still under discussion, the fact that you sort of skipped over the whole part..I was waiting for a motion to be made earlier and you skipped over the whole part as to whether or not even this would go forward to Town Council, all of a sudden you're discussing the distribution. I think that can be done at another time. Right now, we would really like to leave this room knowing it's a done deal.

Mr. Wearn: I wish I could tell you that we had everything in front of us and everything done that needed to be done in order to see a completed proposal, but, this was on the agenda as a report item and we just received the report from our actuary, which was dated February 8th, today's February 9th. And I think we're moving forward in the direction of approving and adopting, but it's my view that we need to have the final paperwork and we need to have an indication of how it should be distributed. So that we can have it all together at one time and do it at the May meeting. I appreciate your presence, I don't think it's necessary for you all to return at the May meeting because I don't perceive that there is any difficulty at this stage in it going forward.

Ms.McLean: We're saying there's no real objections at this point of any members of the Board, to going forward with this?

Mr. Wearn: I can't speak for other members, myself at this stage, but, Mr. Boggs: Could we not approve it in concept, just as a...

Mr. Wearn: The concern I have about approving things in concept, is this, we don't really know what the end result is going to look like and the concept for that has not emerged at this point and so it's too big a matter on which to vote essentially.

Ms. McLean: Could I make another suggestion, that perhaps we need an additional special meeting or a couple of special meetings. It seems to me that, after the separation of the retirement board into the Public Safety and General fund there was certain issues that seemed very important and having meetings doesn't really seem to address those issues. Maybe it's something we could discuss as employees as to how we want the distribution and meet back in a month, a month and a half, six weeks, whatever.

Mr. Wearn: The concern I have with that is, I don't see the urgency beyond the adoption, this fiscal year, which if there were such a situation of urgency to get to a final conclusion, it's not going to speed up the implementation process, it's not going to speed up getting any payments to any retirees or to any employees at this time. Because they would all come due, come, I believe... it's next May of 2002, so...

Ms. McLean: So this would really not effect the marker period, the calendar period we're talking about as far as Public Safety's calendar already started? Ours would not be effected by?

Mr. McCracken: That is correct.

Mr. Wearn: That is correct.

Ms. McLean: Okay, I misunderstood, I apologize.

Mr. Wearn: Not at all, thank you very much for your input.

Mr. Garvy: I'd have to concur with the Chairman that as fiduciaries on this Board, that we should have all the I's dotted and T's crossed. I think it's pretty clear the intent of this board to approve this measure and we want the employees and retirees to have that sense that it will be approved. But as part of our responsibilities having the ordinance in front of us, having the details known, I think's important and we can get that done in May and not interfere with the payments and not have any differential in time for payments between the Police and Fire and the General employees.

Mr. Wearn: Is there anything further on this item XIII at this point? So we would ask the Plan Administrator to please go forward with the contact to the retirees and to the current plan participants and find out their feelings about the alternates for the distribution. We're asking the attorney to give us a draft with those alternates and I think that's it, so we can bring it back as an agenda'd item at the May meeting. Thank you very much for coming, we appreciate your attendance and your input. And we welcome you back at future meetings, too.

VIII FIRST UNION STATUS REPORT (This section is verbatim)

Mr. Wearn: I have received a communication from First Union, from Mr. O'Leary, who I note is here today, Vice-President and Managing Consultant for First Union. Would you like to make some comments? I've just distributed the letter of, well it's dated January 9, 2001, received January 17th at the Town.

Mr. O'Leary: I don't have a formal presentation. As Mr. Chair said, we submitted a written statement, which I guess you all have. Basically, it expresses our gratitude for listening to us last time. No, we were not on good footing with the Board and with transactions that had occurred. We have taken, we believe some steps to provide you with the quality of service you should be receiving. I think I indicated at the last board meeting, but, it states in the letter formally that I have taken direct oversight of the Town. We have a new associate who is working with me on the account. The letter comments that it appeared there were two areas that we could address. One has to do with routine everyday matters and the other one had to do with special projects, such as the asset transfer. With respect to the everyday matters, I've talked with Mr. David Scaff, who's the President of First National here in Palm Beach. He, even more than I, emphasized the importance of our relationship with the Town and has agreed to partner with us in the event there is anything that my associate and I can't address, he'd be happy to get it to the appropriate party to make sure it is addressed. I think just in handling routine everyday matters, communication is critical and we hope we've got a team in place again, including, very importantly, Mr. Scaff, who will make sure that any concerns you have get addressed.

With respect to special projects such as the asset transfer, hindsight's always 20/20, but I think if we have another special project it would be advisable to designate someone from your consultant, someone from one of the investment management firms, from the custodian and from the Town or from the Board as a project manager, who would ultimately be responsible for making sure that all activity was carried out, there would be roll definition, a written report and follow up. Wouldn't be much opportunity for guessing who was supposed to do something, because ultimately it would all fall back on the project manager. We would be equally happy to serve in that role or support whomever you designated in that role. And that's just a suggestion for shepherding through the next special project.

Finally, I've talked about our willingness to make a substantial fee accommodation because of the general dissatisfaction. What we are proposing is one of two approaches, subject to your decision. First approach would be a 50% discount of our fees for a six month period this year. The second approach would be a 25% discount to our fees for a two year period, commencing, I guess at this point, we could do it effective March 1. Just to cover ourselves, we'd lean back, I'd say, at the end of 2002 or a two year period, we would reserve the right to either bring our fees back to where they were or propose a new fee schedule, but of course we understand we have to be competitive and reviewed properly by the folks at Callan. Again, I want to extend our appreciation for the willingness to listen to us the last time and hope that we can move forward in less tenuous and valuated fashion.

Mr. Wearn: Thank you Mr. O'Leary. Does anyone have any question of Mr. O'Leary at this point?

Mr. Boggs: Yes, I saw an article in the Wall Street Journal about cutting costs in the next year, First Union is going to be doing some management shake ups and a delay in technology acquisitions and things of that sort. Is that going to effect us?

Mr. O'Leary: No, sir. But, that's a good question. We've been in the press quite a bit more than I think we would have liked here recently. Some of it's had a good effect on our stock price when there's an article about Fleet's possible interest in us. With respect to deferral of acquisitions and expenses, we've identified three core businesses that we want to invest in going forward. One of those is capital management, the area in which your plan is serviced, there is no dimunision of investment there, the areas that they're talking about have to with our capital markets area, some of our investment banking area and other what we're now calling our non-core businesses. But, capital management is one of the three areas that we specifically targeted for growth and investment, so what we're doing enterprise wide won't have any ability on our effect to service your plan.

Mr. Wearn: Just for clarification perhaps, I recall reading those articles additionally and also noting that it was indicated that First Union would be having a substantial personnel reduction in force. I believe that's correct. And I've also heard that it would be on the Atlantic seaboard area.
And I think we have a definite concern to the level of service and whether it'll be affected by the announced cuts.

Mr. O'Leary: Well, most of our business is on the East coast, we really haven't extended westward. I can tell you that in our capital markets are where we care for and what are called corporate relationship managers, there has been substantial reduction there. We went from some 98 of those positions to about 45 of those positions, so we did have, and obviously those were the officer levels and there was associated staff reduction and consolidation as well. In addition, we have gone to a more regional concept in a lot of the here or local presence, what we call regional executives. So, there's been some kind of combination and downsizing there as well. Again we've not, I would say again, I can't speak for the future, but at this point, we really have no reduction in capital management, and of the announced cuts, the hardest again enterprise wise, we've not been included in that, but I think it's obviously wise to keep an eye on it and perhaps...

Mr. Wearn: Let me just make some comments, if I can, about this subject and the remaining subjects on the agenda. I note that our time is getting about seven minutes to noontime and I believe that Police and Fire Pension Board is meeting at 1:30 this afternoon, where we sit, and we have a number of items to conclude, and I'd like to try to finish our work if we can, not later than
12:30 today. I do have a couple of items that I think we should hear about from First Union and I'm not sure how far they go or where they go at this stage. What I'd like to do is to find out if the problems that had caused our situation over the last, well I think starting January 1, 2000 have been finally resolved, and I think I heard earlier today that there is still a problem with First Union's current report. So I'd like to learn a little bit more about that. My primary focus at this stage would be for us to get an accurate report from First Union, then as that priority gets addressed, perhaps properly consider where we go from there. Are you aware of the existing problems that exist with the report that Miss Valcik mentioned?

Mr. O'Leary: I, no, that was the first I had heard of that this morning. I did call my office during the break and they hadn't heard of it either. Obviously, this account has been analyzed and re-analyzed, there have been more retroactive adjustments and correcting entries on this than any other I have been associated with. We don't know, maybe she can help us...

Mr. Wearn: Let me just ask for the managers and Miss Valcik, would you please just very briefly inform us of what the status is on the accuracy of the report?

Ms. Valcik: As you know, I just found out about the inaccuracy of the report on Tuesday. Once we tried to reconcile numbers and so on, so that's why we asked the...we don't know what the reason is behind it. I know that the cash flows that we got from the managers are different from the cash flows of the First Union statement. I suspect there's a problem with the September statement, because it's the beginning market value, which would be September and the December market value. And I see that there's some sort of problem, probably occurring in the September statement. But, I don't know because we just found out about it.

Mr. Wearn: I understand. Has Loomis Sayles or Roanoke experienced any of those problems, that you might just tell us about very briefly?

Ms. Weisman: The specific problem that Jeanne is referring to is in our, the fixed income portion of our fund that we manage. Jeanne picked it up because there was a gap between the two pieces of the rate of return, which is very unusual. So she asked us to take a look at it and we had not seen Jeanne's kind of return, we only have the one that we do ourselves, internally. When we saw the one that Jeanne sent, which was, we looked back at the bank statements. There was a huge gap. We're pretty convinced that the rate of return of the valuation that we're using is good. Now the person in my shop who oversees that... I... to be honest with you, because this happened in two days, I'm not sure whether we have absolutely identified where the problem is, where we're out. Where we don't reconcile, but, we don't reconcile.

Ms. Valcik: And we did try to do it and we found out that the bank statement that Callan had from First Union didn't agree with the bank statement that Roanoke had from First Union, so at that point we just sort of stopped.

Mr. Wearn: There were two different bank statements covering the same period, giving different information?

Ms. Weisman: Right, we couldn't even match our bank statement to Jeanne's bank statement.
And I think in the end, we used our internally generated statement to work the rate of return.

Mr. Wearn: Thank you.

Mr. Sowerby: Dave Sowerby from Loomis, Sayles. We suspect that if there's a discrepancy it has to do with the cash flows and it's so soon after the end of the reporting year that we don't have a firmer response to that. I think the bank's made progress, there's probably more progress to be made.

Mr. Garvy: Do you suspect it's September number of beginning value that the problem actually preceded the current period, but, goes back into that ending value in September, the beginning of the fourth quarter?

Mr. Sowerby: I don't have a firm yes or no, but, that's my greatest suspicion. Yes.

Mr. Wearn: Can we count on you all to, and First Union, to take the lead in getting this resolved, hopefully by our next meeting, sooner if possible?

Mr. O'Leary: Absolutely.

Mr. Garvy: Could you report back to this board where that problem was? I'm more concerned if it's current, if it's a current problem as opposed to one that occurred in September when these problems were still being dealt with. I'd be more concerned if it's something in this current quarter.

Mr. O'Leary: I agree, that's very insightful, and we will definitely find out.

Mr. Boggs: Mr. Chairman, could we hear from Miss Skittone, if she's had any problems?

Mr. Wearn: Yes, I would like to.

Ms. Skittone: I haven't gotten to the December numbers yet, because I'm still trying to close September. I just received statements last week that were correcting the September statements, and the reason September statements that I saw were incorrect with my books, was because the S&P funds were not correct, either statement comparing that to the S&P. So, I mean, I know Northern Trust isn't here to discuss the S&P problems, but the numbers on First Union's statement didn't balance anywhere near the numbers on the Northern Trust statement, and they had the numbers flip flopped for the new value fund. Public Safety had the lower amount and General employees had the higher amount on the statement. So they had to correct that, and I just received statements this week correcting that, and I am in the process of trying to reconcile those to be able to close the year end books, which also has to do with the total city audit, not just the retirement audit. And I am in the process of closing that so I can get the information to the auditors.

Mr. Wearn: Well I'd like you to maybe begin the 50% reduction as soon as possible and let us see where we are at the next meeting, but hopefully we'll hear back even before that, that it's not a current situation, not about a current period problem.

Mr.Boggs: The 50% for six months rather than over a two year period?

Ms. Skittone: In his letter he said he would give us 50% for a six month period, I would recommend we do that.

Mr. Wearn: Do you have any other recommendations?

Ms. Skittone: Not at this time.

Mr. Wearn: Would you be willing to start the six month reduction currently?

Mr. O'Leary: Yes, I suspect that we would probably already have closed the books on January, so it'll be in effect for the fee calculated as of the end of February.

Mr. Wearn: Is that acceptable to the Board for us to apply that? There's apparently concurrence on that.

Mr. O'Leary: Okay, I will send you a letter confirming that we've stopped, or that we've adjusted the fee or reduced the fees by 50%. And we'll have a written report well in advance of the next board meeting as to what's coming.

Mr. Wearn: But in the meantime, after our meeting adjourns today, I really would appreciate it very much if you would personally hands on take it upon yourself to resolve the issue of, the issues that remain open, so that we are clear that we end up having an accurate report.

Mr. O'Leary: I will.

Mr. Wearn: Thank you, appreciate that.

IX DISCUSSION OF TOWN AUDIT (This section is verbatim.)

Mr. Veil: Mark Veil, Town Auditor, with Caler, Donten, Levine. I believe everybody was passed out a copy of the statement. What it is, is a three month statement from 10/01/99 to 12/31/99. This would be the last little piece, I guess, of the retirement system report as a combined entity, effective 1/1/00, it'll be broken into two pieces and then we'll actually have two separate reports.
And then in the Town's financial statements it will be broken into two parts also. Do you all want me to go through this statement, or do you want the one, two, three or..

Mr. Wearn and others: The one, two, three.

Mr. Veil: Page 1 is just the auditor's opinion. Page 2 is the statement of the assets as of December 31, 1999. We had net assets of $137,007,000. Page 3 is the statement of changes in net assets, this is basically the income statement for the three month period. You had a net increase of 14 million, a little over 14 million dollars, that brought us up to the $137 million. Page 4 starts the footnotes, and really it's a lot of just boiler plate stuff and the majority of it really just describes the plan and actuarial trend information. Page 5, note the plan description, describes all the plan provisions, investing, membership, who's in, somebody must have read before 'cause I heard 10 members, and the funding policy. Starting on page 8 is some actuarial information, we're talking about the 8% rate of return before inflation indexes. Page 9 is a, at the top is a table of actuarial data, the actuarial valuation of the assets versus the actuarial liability. And then you'll see the over funding, for example 9/30/99 is 115%. The last page 9 & 10 talks about the investments just a little more breakout of what everything's invested in and that's really the substance of the report.

The last piece I guess we need to talk about is, I guess, as an offshoot of this whole process and nailing down the numbers and what piece goes where. We transferred assets back in December based on estimates of what the percentages we thought would be. And then based on bringing those numbers forward to the 31st with all the income and all the changes in investment balances, we've come up, that there's a true up number of about $2 million, $195,000 that needs to go from Public Safety to General.

Mr. Boggs: With interest?

Mr. Veil: Yes, and that's a good question. Between Miss Skittone and myself and Jeanne and I, think the consensus is that it should be based on the Public Safety rate of return net of any fees. And that would be from January 1, 2000 up until whatever date we actually make the transfer of the assets.

Mr. Boggs: Can we choose which assets we want?

Mr. Wearn: Are there any other questions?

Mr. Garvy: How will we receive the assets? In cash?

Ms. Valcik: I'm just looking at that, yeah, I'm thinking. Well, I hadn't really given it any thought, but, in looking at the assets, it would probably make sense to do a switch over of Russell 1000 Value to save transaction costs. As long as we can stay within our tolerance range.

Mr. Garvy: Into an index fund?

Ms. Valcik: Well, it's, we've already got the Russell 1000 Value Index Fund. We're over-weighted in value in both funds. Either that or the S&P.

Mr. Garvy: Why would we put it in value if we're over-weighted in value?

Ms. Valcik: Well, it would help the Public Safety fund, take care of that problem, of course it would increase your problem.

Mr. Garvy: You're saying they have a value index fund?

Ms. Valcik: We have it in both plans, so, I'm thinking, though...

Mr. Garvy: So if we're not outside the range, that would be acceptable to me. Nice and clean and simple.

Ms. Valcik: The index fund, which is a transfer between the Northern Trust, would be the cheapest way.

Mr. Boggs: Those are the funds I'd want to take too. Since value's in both. We'll take them.

Mr. Garvy: Of course, there's another issue, though whether we want to have it in an index fund or whether we want to give it to Loomis, but, that's a different question. If we need to do this, we can do this cheaply, quickly, and then have another discussion on the long term positioning of those assets. Okay.

Mr. Wearn: Any other issues or questions?

Mr. Veil: That's pretty much it. We're anxious to get the next one done, because we're going to be bumping up a Town deadline.

Mr. Wearn: When do you anticipate that?

Mr. Veil: Well...I guess our Town deadline is really March 31st, at the absolute latest, to issue financial statements or else we run into some problems with some of the reporting agencies. So, we really need to resolve whatever issues, and especially if they relate to September 30th, you know, like yesterday.

Mr. Wearn: So you really need those resolved, at the latest, by the end of this month.

Mr. Veil: Sooner if possible, because it is, unfortunately, it's a big, we can do the two pension statements later, I mean that's not a problem. But, it's a big chunk of the Town's financial statements in terms of disclosures and getting the numbers in and the Town's reports, we're at a hundred pages long, so..

Mr. Wearn: So you need Mr. O'Leary's...

Mr. Veil: Quickly.

Mr. Wearn: Assistance from First Union in getting that done promptly. Mr. O'Leary, can we do that?

Mr. O'Leary: Yes.

Mr. Veil: And then everybody else buy off on it, 'cause we have, I'm not going to do it until everybody's bought off on it or else I'll end up redoing statements multiple times like we've done all this time. So we would like to get that done quick.

Mr. Garvy: So you two will be in contact then on this as well?

Mr. Wearn: Well, probably Miss Skittone.

Mr. Veil: Exactly, she's got to post all the entries and....

Mr. O'Leary: I want to be clear. We were talking before about statements that appear to end December 31?

Ms. Valcik: That was the ones that I had issue with, but, of course in performance, the ones from September also have an impact.

Mr. Veil: I need September 30, 2000, but, I think the ones Jane was talking about were..

Ms. Skittone: I have those, and I'm working on now trying to reconcile them. There's a few accounts that are off, but I haven't had a chance to investigate the differences. It's not major differences at this point like it was before, but there are still some differences.

Mr. Wearn: So we need prompt attention to all of those items.

Mr. O'Leary: Absolutely.

Mr. Wearn: And we have your commitment for that, please.

Mr. O'Leary: Yes, but again, just to make sure I'm understanding. When I'm back in the office we can address why the December statements were causing a problem, and I believe we're waiting on Miss Skittone for the September statements, because we've signed off on them, so to speak.

Mr. Wearn: Miss Skittone is nodding in the affirmative.

Mr. O'Leary: So we will proceed with December and wait and hear on September, if we have to do more work there. Regardless, whenever we get the word, we will move expeditiously.

Ms. Skittone: Has the new December statements been sent to the money managers, the September statements to the money managers to verify that they agree with the ending figures?

Mr. O'Leary: Well, we wouldn't ordinarily send consolidated statements to the money managers because we wouldn't report Loomis to Roanoke, and vice versa. So the short answer, no.

Ms. Skittone: Is it possible to get statements sent to them as of September 30th that would show their balances so that they can sign off that...

Mr. O'Leary: Yeah, we would have sent, they would have each received their own statements.

Ms. Skittone: And those would be the numbers that would be tied to this new statement that I received, even though, 'cause a lot of numbers changed on that statement, not just S&P. Cash changed quite a bit, temporary investment changed quite a bit, and the S&P fund doesn't have anything, really, to do with those two accounts. So I'm somewhat concerned that there are other things that transpired, and I want to make sure they all agree, and I'm sure Mark wants to be sure they all agree.

Mr. O'Leary: I will make sure that they have... have or will receive statements that tie to the revised consolidated statements.

Mr. Wearn: Anything else on this agenda'd item?

X REPORT ON QUARTERLY EXPENDITURES (This section is verbatim)

Ms. Skittone: You have before you my statement of cash flow projection and report on quarterly expenditures. As you can see from the cash flow projection for February 1st through April 30th, we will have a shortfall, and I'm recommending at this time that we transfer $250,000 from the money managers for this fund.

Mr. Wearn: Is there any question or comment from the board on that?

Mr. Garvy: Which money managers?

Ms. Skittone: In the past we've gone 50/50 between the two, Loomis and Roanoke. So that would be $125,000 each per money manager, unless you wanted to change that in light of the $2 million that might be coming from Public Safety to us in the net value fund. Possibly you could use some of that money?

Mr. Garvy: Why can't we do that, Jeanne?

Ms. Valcik: I'd take it from the value, because you're over weighted in value. It's a way to reduce. I'd take it from the Russell 1000 value versus taking it pro-rata from the active funds.

Mr. Garvy: Yes, I would too, but if we're transferring funds in, we're just going to take that out, that cash out? From the Police and Fire fund.

Ms. Valcik: The funds coming in... If I can figure it out, I'd like the funds to come in, in-kind, so that we don't have a transaction charge.

Mr. Garvy: Okay, and then we take it out of the index fund.

Ms. Valcik: It is a daily fund. That gives us access to it.

Mr. Wearn: I believe we're going to need a motion for approval on that.

Mr. Boggs: So moved.

Mr. Wearn: That's a motion to approve the transfer as described.

Mr. Bradford: Second.

Mr. Wearn: Any discussion? All those in favor please say aye, and all said aye; opposed, like sign (silence). Motion carries unanimously for the recommended amount of transfer as described.

Ms. Skittone: Thank you, and the second page shows the operating expenses for the quarter. I don't show any for First Union, because like I said, I haven't been able to even look at those three months' worth of statements yet. And that's where the fees are recorded, and as you know, their fees come out of their statement directly. They're not invoiced to us, so I haven't been able to record those fees because I haven't made the entries to post the statements yet.

Mr. Boggs: You mean they take it right off our bank account?

Ms. Skittone: They take it out of our bank account.

Mr. Boggs: Wow, isn't that unusual?

Ms. Skittone: I don't know if it's unusual or not.

Mr. Boggs: You don't get an invoice?

Ms. Skittone: No we don't.

Mr. Wearn: I believe we usually have a motion for the approval of the expenses and the report being filed for audit.

Mr. Garvy: So moved.

Mr. Wearn: I have a motion for that approval.

Mr. Boggs: Second.

Mr. Wearn: I have a second, any discussion? All those in favor please say aye; and all said aye, opposed like sign (silence). Motion carries unanimously. Thank you, Miss Skittone.

XI CONSIDERATION OF ADOPTION OF MANAGER RETENTION GUIDELINES (This section is verbatim.)

Mr. Wearn: The next item we have is the consideration of the adoption of a manager retention guideline, and we have a report on the revised statement of investment policy and retirement applications and discussion of continuing education and other matters. We have 12 or 13 minutes before 12:30 to try and accomplish those items. Do we need to address the policy issues today, on the policy statement? In other words, passing beyond the manager retention guidelines.

Mr. Garvy: You want to go past that?

Mr. Wearn: Well, I was just inquiring about what we need to accomplish today.

Mr. Boggs: I think so.

Mr. McCracken: I think we do. It's from a, it's a new statute, you see.

Mr. Wearn: Okay. Alright, let's do this...

Mr. McCracken: I'm not sure when we have to have it in, Jim.

Mr. Wearn: I understand. Let's go to the manager retention guidelines for a moment. We addressed those at the last meeting, we've had them typed up with our revisions and suggestions and there are a couple of editorial revisions which I suggested to Mr. McCracken, and they are insubstantial. The only revision that I would like to place before the Board for consideration of substance is in each of the three items, one, two, and three, "after there is a report by the investment consultant" it says that the board shall consider the various actions that apply in one, two, or three, and it is my thought instead of the word "shall", the word "may" should be substituted so that the board is not bound by it's own policy to consider, but, may act or may choose not to.

Mr. Bradford: Yes. Discretion.

Mr. Wearn: Discretion, as opposed to the board tying it's own hands or feet or both. Does anyone else have any other comments on the manager retention guidelines at this stage?

Mr. Garvy: I'd just like to observe, I think they're well done, they're comprehensive, they provide for a roadmap for us to perform our fiduciary responsibilities, and I thank Callan for drafting them for us. I think they will serve us well.

Mr. Wearn: I think so too. The Chair would like to entertain a motion to approve these manager retention guidelines with the editorial revisions made in the change of the word "shall" to "may" as to the Board's required action under each of the items one, two, and three.

Mr. Boggs: So moved.

Mr. Richards: Second.

Mr. Wearn: I have a motion and a second, any discussion? Hearing none, all those in favor, please say aye, and all said aye; opposed like sign, (silence). Motion carries unanimously. Thank you. Let's go to the statement of investment policy, Mr. McCracken, would you take us through that please.

XII REPORT ON REVISED STATEMENT OF INVESTMENT POLICY

(This section is verbatim.)

Mr. McCracken: Yes. The statement of investment policy was redone in a number of respects from our last meeting. Principally, to separate it out from the Public Safety Board and the General Board. It was then retyped and I provided you a copy of the redline copy showing the changes. There are at least two changes that should have been made that were not made and I thank Jeanne for pointing out that on page 3, I believe someone pointed this out at a meeting, I saw in the minutes, small cap should be 20% of the target rather than 30%, which is typed there. Additionally, it was pointed out at the previous meeting that on page 1, where it says aggregate, the very first sentence of investment objectives, "aggregate index minus the bonds below Triple B". It had been pointed out the last time that what we were dealing with was aggregate minus the bonds Triple B and below, rather than the reverse. Finally, Mr. Wearn has suggested, I believe quite appropriately, that we're talking about targets in that objective, investment objectives section, but, when we get to the targets on page two, we're really doing target levels, so I would like to incorporate a change that Mr. Wearn has suggested to use, to follow through, the word target level is used at one point, to follow through and identify where a target level is correct and where target return is correct so that... that would just be a very minor editorial change as well.

Now, there are a number of issues which were discussed or highlighted, I should say, at our last meeting which relate to this statement of investment policy which the Board has not yet discussed, and given the fact that we've got five minutes left, obviously that's not going to be possible. You may recall, for example, that Mr. Garvy was concerned about the 5% limitation, and I have gone back to the statutes and determined that the 5% limitation is a limitation for Public Safety and is not applicable to this board. There is a different limitation that's applicable to this board, which is a 3% limitation. The statute specifically provides that you may not invest in more than 3% in a given security unless the Board makes a specific determination that it is in the best interest of the fund to make that particular investment. So, I would like to make that change in the statement of investment policy, also. There's an overall limitation that, even if the Board makes a specific decision to invest more than 3% of it's fund in a given security, that it may not invest more than 10% of the fund in that security.

Mr. Garvy: Would we be required to approve each individual security greater than 3%?

Mr. McCracken: Yes.

Mr. Garvy: Well, I noticed that Roanoke has four stocks at over 5%, if...

Mr. McCracken: That's 5% of Roanoke, that's not 5% of the fund.

Mr. Garvy: I see. You're correct, right. But, we have to make that calculation then on every...

Mr. Wearn: Actually, the fund managers would have to communicate about which investment security they're acquiring or disposing of.

Mr. McCracken: And the purpose of the statement of investment policy is to assure that the fund managers recognize that they may not go above that level.

Mr. Wearn: I think those revisions are statutorily required, and we must make them. We have no alternative.

Mr. McCracken: That's correct.

Mr. Wearn: At this stage, what I'd like to suggest, and I know that Mr. Garvy has distributed to us at the meeting today, a presentation item that he would like to address. What I'd like to suggest at this point is that we give approval for the policy in order to meet statutory requirements with the revisions in as recommended by Mr. McCracken, and agenda it for further consideration and discussion at the May meeting.

Mr. Garvy: Can we amend it at that time?

Mr. McCracken: Yes sir.

Mr. Wearn: Yes, we can amend it at any time at any of our meetings.

Mr. Garvy: Are we statutorily required to adopt this at this time? Before our next meeting?

Mr. McCracken: I have the statute here, it's a new statute, and I have the statute here and it doesn't say when we have to have accomplished this, but I'm sure the session law does says that, but I don't have the session law with me. I think we are overdue already.

Mr. Wearn: I think so, too. Would what I proposed be acceptable to the members of the board?

Mr. Bradford: Yes.

Mr. Boggs: Yes.

Mr. Wearn: Okay, then I would like to entertain a motion to approve the statement of investment policy as presented by Mr. McCracken today, with the revisions that he's indicated that he recommends that be made now and also that the revisions that are statutorily required. Is there such a motion?

Mr. Bradford: So moved.

Mr. Boggs: Second.

Mr. Wearn: I have a motion and a second, is there any discussion? Hearing none, I'll call the question. All those in favor please say aye, and all said aye; opposed like sign (silence). Motion carries unanimously. And we will bring this matter back for the remaining discussion on the May 5 agenda, which is getting larger.

XIV RETIREMENT APPLICATIONS

Mr. Crouse reported on the applications and explained each individual's criteria for retirement. Mr. Boggs asked to do all 5 and then make the motion. Mr. Wearn stated that normally they approved them one by one.

A. Mr. Boggs moved approval of Donald Pertillar's application for retirement. Mr. Richards seconded the motion. The motion carried unanimously.

B. Mr. Boggs moved approval of Linda Greene's application for retirement and participation in the Deferred Retirement Option Plan. Mr. Bradford seconded. The motion carried unanimously.

C. Mr. Boggs moved approval of Mary Pollitt's application for retirement and participation in the Deferred Retirement Option Plan. Mr. Richards seconded. The motion carried unanimously.

D. Mr. Boggs moved approval of Richard Horne's application for retirement and participation in the Deferred Retirement Option Plan. Mr. Bradford seconded. The motion carried unanimously.

E. Mr. Boggs moved approval for Edith Pickett's application for retirement and participation in the Deferred Retirement Option Plan. Mr. Richards seconded. The motion carried unanimously.

XV DISCUSSION OF CONTINUING EDUCATION FOR BOARD MEMBERS

Mr. Wearn suggested they postpone this until the next meeting. Mr. Bradford agreed, as did the other members of the board.

XVI ANY OTHER MATTERS

Mr. Boggs suggested that the meeting of this board be moved to Thursday, and that Public Safety meet on Friday, or vice versa. Mr. Boggs stated that he thought this would allow time to cover all items on the agenda without being rushed, as he felt this board had fallen behind on issues that Public Safety had already approved or were ready to present. Mr. Boggs explained that the General employee was perceiving this as Public Safety being more on top of things. Mr. Wearn stated he understood the concerns and that he had difficulty with the division of the two boards, as theirs was going to go in a different direction. Mr. Wearn noted that this Board had about three and a half hours and that Public Safety started at 1:30 and went until they were done. Mr. Wearn asked that the Administrator broach that idea with Public Safety. Mr. Boggs stated that he felt that an entire day was necessary to get covered what needed to be done. Mr. Garvy agreed. There was discussion on having part of the meeting Thursday afternoon and the investment manager's portion on Friday mornings, which would not inconvenience the participants who needed to travel in for the meetings. Ms. Skittone noted that most of these people fly in the day before anyway. It was decided that the administrator would set up the meeting for early Thursday afternoon which would allow it to go into the early evening, if necessary.

XV ADJOURNMENT

There being no further business, Mr. Boggs moved to adjourn. Mr. Richards seconded. The motion carried unanimously. The meeting was adjourned at 12:40 p.m.

Approved:

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Vernon Richards, Secretary