

**CITY OF PORT ORANGE
POLICE OFFICERS' PENSION BOARD
FEBRUARY 16, 2018**

The Port Orange Police Officers' Pension Board of Trustees held its quarterly meeting on Friday, February 16, 2018 in the Police Department Training Room, 4545 Clyde Morris Boulevard, Port Orange, Florida.

MEMBERS PRESENT: Chairman Steve Braddock (police member)
William Proctor (police member)
Warren Carman (fifth member)
Drew Bastian (resident member)
Brian Cobb (resident member)

CONSULTANTS: Ken Harrison, Board Attorney – Sugarman & Susskind
Tyler Grumbles, Investment Consultant – AndCo
Chad Little, Actuary – Freiman Little Actuaries
Zach Chalifour, Auditor – James Moore, CPA
Karan Rounsavall, Plan Administrator

CITY STAFF: Tracey Riehm, Finance Director
Grace Stewart, Risk Manager

Chairman Braddock called the meeting to order at 9:02 a.m. A quorum was in attendance.

APPROVAL OF MINUTES

Member Bastian moved to approve minutes of quarterly meeting November 17, 2017 as submitted. Member Carman seconded the motion and it carried unanimously.

OFFICER AND TRUSTEE REPORTS - None

CONSENT AGENDA

The following items were presented for action as recommended:

- A. Approve plan expenditures as follows:
 1. Sugarman & Susskind – monthly retainer for December 2017 - \$2,600.
Recommendation: Ratify payment.
 2. Sugarman & Susskind – reimbursement of copy charges for Vastell disability - \$100. *Recommendation:* Ratify payment.
 3. Sugarman & Susskind – monthly retainer for January 2018 - \$2,600.
Recommendation: Ratify payment.
 4. Sugarman & Susskind – monthly retainer for February 2018 - \$2,600.
Recommendation: Ratify payment.
 5. CIOX Health – copy charges for medical records for Vastell disability from Orlando Orthopaedic Center - \$191.16 *Recommendation:* Ratify payment.
 6. Plan Administrator Karan Rounsavall – monthly fee (November 2017, December 2017, January 2018) - \$7,200. *Recommendation:* Ratify payments.
 7. Florida Public Pension Trustees Association – Board membership renewal fee for 2018 - \$600. *Recommendation:* Ratify payment.

8. Florida Public Pension Trustees Association – Registration fee for Winter Trustee School in Orlando (Trustees Bastian and Carman) - \$1,200. Recommendation: Ratify payment.
9. Hyatt Regency Orlando - lodging expense for Trustee Drew Bastian for FPPTA Winter School - \$627. Recommendation: Ratify payment.
10. Hyatt Regency Orlando – lodging expense for Trustee Warren Carman for FPPTA Winter School - \$627. Recommendation: Ratify payment.
11. AndCo Consulting – investment consulting and performance monitoring services for quarter ending December 31, 2017 - \$8,750. Recommendation: Ratify payment.
12. First State Trust Company – custodial services for quarter ended December 31, 2017 - \$4,625. Recommendation: Ratify payment.
13. James Moore & Co. – Progress billing #1 for work on September 30, 2017 audit through December 31, 2017 - \$4,000. Recommendation: Ratify payment.
14. James Moore & Co. – Progress billing #2 for work on September 30, 2017 audit through January 31, 2018 - \$5,000. Recommendation: Ratify payment.

Member Bastian moved to ratify plan expenses as recommended. Member Cobb seconded the motion and it carried on an all yes vote.

OLD BUSINESS

- A. Acknowledge adoption of Ordinance No. 2017-32 establishing a defined contribution plan component/share plan for the Port Orange Police Officers' Pension Plan

At a regular meeting on December 12, 2017, the Port Orange City Council adopted the subject ordinance creating the defined contribution plan component (“share plan”). The city and the union representing police officers reached “mutual consent” that all annual premium tax revenues and accumulated excess premium tax revenues (as of October 1, 2016) would be used to offset the city’s required contributions to the pension plan. At such time in the future that the city and union mutually agreed to allocate premium tax revenues to a share plan, the details of same would need to be collectively bargained.

Trustees acknowledged adoption of Ordinance No. 2017-32 by the Port Orange City Council.

- B. Acknowledge receipt of draft ordinance increasing investment limits on equities held in the portfolio from 65 to 70 percent

At its November 17, 2017 meeting, the Pension Board voted to approve an increase to equity targets from 65 to 70 percent (at market value). The increase was recommended by AndCo, the plan’s investment consultant. Board members were in receipt of a draft ordinance increasing the equity targets as stated.

Member Bastian moved to authorize the plan actuary to prepare an actuarial impact statement (i.e. statement of no impact), and upon receipt to forward the ordinance and statement of no impact to city staff for consideration by the Port Orange City Council. Member Carman seconded the motion and it carried unanimously.

NEW BUSINESSA. 2018 Biennial Update of Summary Plan Description as required by *Florida Statutes*

Florida Statutes required that the provisions of a pension plan be presented in a written summary plan description (SPD) and published on a biennial basis in a manner that could be understood by the average plan participant. Board members were in receipt of a draft SPD as updated by the plan administrator and reviewed by the attorney and actuary.

The SPD for the Port Orange Police Officers' Pension Plan was last published on November 20, 2015. While there had been no substantive changes to pension plan provisions since that date, several ordinances were adopted, to-wit: provision for police chief to opt out of plan, increasing trustee terms from two to four years, and creating a defined contribution plan component (albeit presently unfunded). The updated SPD referenced the October 1, 2017 collective bargaining agreement, reflected the latest actuarial information, current board composition and current investments. It further clarified credited service as "vesting credits" to mean service as a full-time police officer during which contributions were made to the pension plan.

Member Bastian moved to approve the updated SPD as submitted in keeping with statutory provisions and to direct the plan administrator to distribute same to all active plan members. Member Cobb seconded the motion and it carried on an all yes vote.

B. Acknowledge receipt of detailed accounting report for Fiscal Year 2016/2017

Board members were in receipt of the detailed accounting report for Fiscal Year 2016/2017 prepared by the plan administrator. It reflected administrative expenses that were paid on behalf of the plan during the fiscal year. Administrative expenses included legal counsel, actuarial, investment consultant, plan administration, etc. Total administrative expenses were \$249,754 which was less than the adopted budget for the fiscal year. Investment management expenses were not considered administrative expenses and, as such, were not reported.

Member Bastian moved to accept the detailed accounting report for Fiscal Year 2016/2017 as presented. Member Carman seconded the motion and it carried on an all yes vote. A copy of the report would be posted on the police department bulletin board.

C. Consider fee increase for Plan Administrator Karan Rounsavall

Mrs. Rounsavall first accepted the position as plan administrator for the Port Orange Police Pension Plan in March 2014. Her fee had been at \$2,400 per month since May 1, 2015. Her memorandum dated February 1, 2018 reflected the positive administrative improvements that had been made to the pension plan during her tenure. She requested an increase to \$2,600 per month effective March 1, 2018. Additionally, Mrs. Rounsavall requested that the pension plan cover her registration and lodging expense to attend one Florida Public Pension Trustees Association (FPPTA) event each calendar year. The fee was guaranteed for three years.

Chairman Braddock and other board members expressed appreciation to Mrs. Rounsavall for her dedication to the pension plan and the improvements that had been

made. They felt she was deserving of an increase greater than \$2,600 and more along the line of what the prior administrator had earned (i.e. \$35,000 annually).

Member Bastian moved to grant Plan Administrator Rounsavall a monthly fee of \$3,000 to be guaranteed for four years (until March 2022), along with expenses for FPPTA registration and lodging. Member Carman seconded the motion; it carried unanimously. Mrs. Rounsavall expressed her sincere appreciation for the Board's action.

CONSULTANT REPORTS

A. Chad Little – Freiman Little Actuaries, LLC (Plan Actuary)

1. Request for board interpretation of plan document, specifically Section 54-124(e)(6) which states: *“Effective on January 31, 2011, credited service purchased pursuant to this subsection (3) shall not be counted toward vesting.”*

It was Mr. Little's understanding that this section meant a member had to actually work ten years to vest. Normal and early retirement were defined in the plan document using the term “vesting credits.” He asked for the Board's confirmation that purchased service (once a member was vested and the service paid for) counted toward normal and early retirement eligibility.

By consensus, the Pension Board confirmed that this was its understanding of the referenced section as well.

2. Presentation of annual actuarial valuation for fiscal year ending September 30, 2017

Board members were in receipt of the October 1, 2017 Actuarial Valuation Report for the Port Orange Police Officers' Pension Plan. This report established the annual City contribution to the Pension Plan for the fiscal year ending September 30, 2019. The City's minimum required contribution, as a dollar amount, increased slightly to \$2,842,943 (state and city contributions combined). However, when expressed as a percentage of payroll, the minimum contribution decreased from 64.57 percent to 57.88 percent. The Plan's funded status was 71.64 percent, representing an increase over the previous year's funded percentage of 69.12 percent. The unfunded accrued liability (UAL) was \$13,832,793.

The investment return on the “market” value of assets was ten percent; the return on the “actuarial/smoothed” value of assets (five-year smoothing) was 6.4 percent which was less than the 7.45 percent assumed net investment rate of return. For Fiscal Year 2017/2018, the assumed investment rate of return was 7.35 percent.

Mr. Little noted that the market value of assets in the pension fund as of October 1, 2017 was \$34,383,729. In 2008, the market value of the fund was \$11.8 million. The fund had tripled in size in ten years. It was unlikely that the city's revenues had increased to this extent. The fund had outpaced the plan sponsor and costs represented a larger percentage of the city's budget. It was important to be aware of this situation going forward.

The valuation report also included required disclosures under *Florida Statutes* 112.664(1). Report disclosures required by Governmental Accounting Standards Board (GASB) 67 and 68 were provided as a supplemental report.

Member Bastian moved to approve the 2017 actuarial valuation report as presented. Member Carman seconded the motion and it carried on an all yes vote. Plan Administrator Rounsavall would provide the approved valuation to the State Division of Retirement.

3. Declare expected annual rate of investment return for assets of Port Orange Police Officers' Pension Plan for short term and long term thereafter in accordance with Section 112.661 *Florida Statutes*

Board members sought input from their actuary and investment professional as to an expected investment rate of return going forward. Actuary Little was comfortable with the current 7.45 percent expected investment rate of return. Mr. Grumbles likewise agreed that 7.45 percent was a reasonable rate of return particularly given the long time frame for a pension fund.

Per the Board's previous direction to reduce the assumed rate of return by ten basis points each year (September 3, 2015), the actuary would prepare the 2018 valuation using 7.35 percent as the assumed annual rate of return.

Member Bastian moved to declare a 7.45 percent expected rate of return for retirement plan assets going forward. Member Cobb seconded the motion and it carried on an all yes vote.

Mr. Little mentioned that Freiman Little Actuaries (FLA) was working with city staff and the plan administrator to verify benefit service dates. Benefit service dates differed from hire dates in that the former was tied to the date that a member began making contributions to their pension plan. In some situations, there was inconsistency in verifying contribution start dates. *Following some discussion on individual examples, it was the consensus of the pension board to use a member's swear-in date as pension start dates.* Upon verification and receipt of benefit start dates, FLA would be able to prepare annual member statements.

B. Zach Chalifour – *James Moore (CPA) Auditor*

1. Presentation of draft audit of Police Pension Fund financials for fiscal year ended September 30, 2017

Mr. Chalifour presented the draft audit and thanked Plan Administrator Rounsavall for her assistance. There was nothing in the report assessed as a material weakness to be disclosed. His firm presented an "*unmodified opinion*" of police pension financials for Fiscal Year 2016/2017 which was the highest standard.

The audit was performed in conformance with governmental auditing standards. The Pension Plan reflected a fiduciary net position of \$34,383,729. There were no DROP distributions during the fiscal year. The net pension liability was \$14,390,527.

Prior audit reports presented recommendations and comments for improving the Plan's efficiency and internal controls. All of these had been satisfactorily addressed; there were no such comments in the Fiscal Year 2016/2017 audit.

Noting that the Police Pension Fund received clean audits for the past three years, Chairman Braddock asked whether or not it was necessary to conduct an independent audit every year and incur the related expense. Attorney Harrison advised this was a

board decision. It was a statutory requirement to conduct an audit once every three years, however, this could be done in conjunction with the City's audit.

Plan Administrator Rounsavall noted that a great deal of the audit work done during the past three years involved benefit testing for retirees. Since benefit payments to all retirees were verified over the past three years, future audits would only involve new retirees and cost-of-living adjustments. She felt this lessened the audit examination work that would be required going forward and should be considered in pricing.

It was the consensus of the pension board to engage James Moore, CPA to conduct an audit of the pension plan financials for fiscal year 2018 at a cost of \$9,000. Mr. Chalifour would provide an engagement letter for consideration at the next quarterly meeting.

The board went on to accept the audit report for the fiscal year ended September 30, 2017 as presented.

C. Tyler Grumbles – AndCo Consulting (Investment Consultant)

1. Performance Report for quarter ended December 31, 2017

Mr. Grumbles began by providing a brief organizational update on AndCo Consulting. The firm now had 87 employees with clients across the United States. Its mission was to represent the sole interests of its clients by continuing its 100 percent independence model. Dan Johnson, senior consultant to the Port Orange Police Pension Plan, was recently made a partner in the firm.

Mr. Grumbles delivered the Investment Performance Report for the quarter ended December 31, 2017. It was a strong quarter with international equities, particularly emerging markets leading the returns. Fixed income yields remained low. This was one of the reasons that AndCo recommended an increase to the equity allocation for the fund. His more specific recommendation would be to increase the international equity target to 15 percent.

Total market value as of December 31, 2017 was \$35,756,521 up from \$34,003,283 for the previous quarter September 30, 2017. On a percentage basis, the composite portfolio was up 3.90 percent (gross) for the quarter which ranked in the 35th percentile of public plans. For the trailing 12 months, the fund was up 13.14 percent ranking in the 84th percentile. As of February 15, 2018, the fund was valued at \$36,113.545.

Member Bastian moved to accept the investment performance report as presented. Member Cobb seconded the motion and it carried.

2. International Equity Manager Search

Board members were in receipt of an International Equity Manager Analysis prepared by AndCo. At the end of the quarter, the Port Orange Police portfolio held \$3.6 million in the Vanguard Total International Stock Fund. This was a passive index fund passive used when the pension fund transitioned from Graystone. Mr. Grumbles recommended that the fund utilize one or two international equity managers that were actively managing the assets within this asset class. AndCo vetted four mutual funds in the international equity asset class as presented in the handout. One of these funds was the *American Funds Europacific Growth Fund*. It was a very large mutual fund with a growth orientation and multiple strategies and managers. *Oakmark International*

Institutional offered a more concentrated strategy with a value emphasis that would complement the Europacific Growth Fund.

If the Pension Board wished to focus on a single fund for its international investments, Mr. Grumbles recommended the Europacific Growth Fund. If it wanted two funds, he recommended that the Board include Oakmark. Both were mutual funds with relatively low management fees

Member Carman moved to accept the consultant's recommendation for international equity investments and to allocate \$1 million to Oakmark with the balance of the international equity allocation invested in the Europacific Growth Fund. Member Bastian seconded the motion and it carried unanimously.

At the next quarterly meeting, Mr. Grumbles would provide an analysis on active managers in the domestic equity asset class.

D. Ken Harrison – *Sugarman & Susskind* (Attorney)

1. Legislative Update.

Attorney Harrison advised of proposed legislation affecting public pension plans. One bill allowed a cancer diagnosis as a presumptive disabling injury for firefighters. A second required additional disclosures in valuation reports.

2. Update on disability retirement application for Officer David Vastell

The attorney advised that a physician was contacted to conduct the independent medical exam (IME). Additionally, his office received workers' compensation records from the city. Upon completion of the IME and receipt of the physician's report, a special meeting could be called to conduct an informal hearing on Officer Vastell's disability application.

Attorney Harrison went on to advise that Attorney Dustin Watkins left *Sugarman & Susskind* for personal reasons. The firm hated to lose him. Additionally, his firm recently was retained by the Port Orange Fire Pension Board as legal counsel. The Fire Pension Board met on Mondays.

Mr. Harrison mentioned that the Rockledge Retirement Plans voted to allow the attorney's attendance at future quarterly meetings via video conferencing (Skype). He wondered whether or not the Port Orange Police Pension Board was receptive to video conferencing. Doing so would allow him to reduce his monthly retainer. The board had mixed feelings about video conferencing. Member Carman particularly liked the attorney's face-to-face presence at meetings.

There was no particular objection to changing meeting dates from Friday to Monday.

E. Karan Rounsavall – Plan Administrator

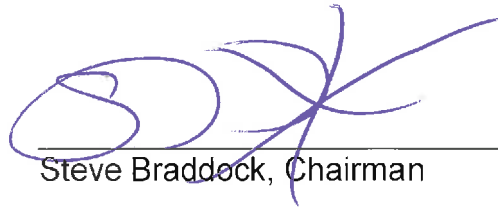
Mrs. Rounsavall advised that Trustees Warren Carman and Drew Bastian earned their Certified Public Pension Trustee (CPPT) certification at the conclusion of the FPPTA Winter Trustees School the previous month. This was a commendable achievement.

The next quarterly meeting was scheduled for May 18, 2018.


PUBLIC COMMENT - None

ADJOURNMENT

The meeting adjourned at 11:45 a.m.



Steve Braddock, Chairman


Karan Rounsavall, Plan Administrator