CITY OF PORT ORANGE GENERAL EMPLOYEES RETIREMENT PLAN
QUARTERLY MEETING MINUTES
March 25, 2019

ROLL CALL:

The meeting of the City of Port Orange General Employees Retirement Plan was called to order by Chair Peter Ferreira at 2:03 p.m. on March 25, 2019 in the 2nd Floor Training Room, City Hall 1000 City Center Circle, Port Orange, FL.

TRUSTEES PRESENT:

Chairman Peter Ferreira, Vice Chair Lynn Hadley, Kynah Cockcroft, Cynthia Rivera, Jake Johansson and Scott Neils

ABSENT AND EXCUSED:

Scott Stiltner

OTHERS PRESENT:

Pete Prior of Benefits USA, Inc.; Zach Chalifour of James Moore; Dave Leonard, Actuary; Todd Wishnia of Highland Capital; Jeff Swanson of Southeastern Advisory; Jaimie Miller, City Administrative Services Director; John Shelley, Retiree. and Brent Chudachek, Fund Attorney via telephone

APPROVAL OF MINUTES

February 25, 2019 – Regular Meeting

Chairman Peter Ferreira asked the Members if there were any corrections, additions, or deletions with the minutes of February 25, 2019.

Hearing and seeing none Member Rivera moved to approve the minutes as presented. Member Hadley seconded the motion and the motion passed.

PARTICIPANT/PUBLIC PARTICIPATION:

City Administrative Services Director Jaimie Miller attended the meeting to provide an update on the Ordinance, the ordinance still in the First Reading, and April will have second reading. She noted that the Plan is not terminated but closed to new employees. Chairman Peter Ferreira noted that he wanted it on the record that the Members were offered to participate in the Plan. Ms. Miller noted that for only two (2) months new Members were not offered to enter into the Plan. Ms. Miller noted that all the New Employees chose not to enter the DB plan but instead entered into the DC plan.

Fund Attorney Brent Chudachek reminded the Board that the Pension Administrator is required to send the Actuarial Impact Statement to the Division of Retirement between the First and Second Reading. Administrator Pete Prior stated he is aware of the requirement and will do so as soon as he receives the documents.

FINANCIALS:

2018 Valuation Report and GASB 67&68 – Dave Leonard

Mr. Leonard addressed the Board the October 1, 2018 Valuation Report was being reviewed by his peers.

Mr. Leonard reported that the October 1, 2018 valuation was prepared on a group of 100 active members, 16 decrease of ten from 2017. The shift in emphasis in Plan liabilities from actives to retired Members also continued, with active Members now representing only 20% of the total accrued benefits of the Plan. This is an 8% decrease from last year's report and was expected based on an early retirement window program that lead to the significant decrease in active members mentioned above. The pre-2012 Plan actives decreased by 15 to 80. The "new" Plan population lost 1 active member with more terminations than new members leaving 20 actives.

For the October 1, 2018 valuation, the Fund continued phasing of the 7.0% interest assumption with the previous three-year phase in period completed. The recommended contribution funding level for 2019-2020 will be 23.1%, which is almost exactly the same level projected from 2017 valuation.

The 2017-18 trust asset return was 12.5%, and 12.2% net of all expenses including administrative. This helped produce a smoothed valuation asset return of 9.3% which created actuarial gains of over $659,000. This is turn helped reduce the normal cost by almost $70,000 or about 1.75% of payroll.

For 2019, about $576,000 in prior gains will be recognized, giving the Plan a head start of about 182 basis points towards the assumed 7.0% return. The Fund took the five-month negative yield of 1.7% and prorated a 7.0% yield for the next 7 months to the end of the fiscal year to calculate an estimated "Valuation Asset Yield" for September 30, 2019. The result was a valuation asset yield of 8.35%, and about $400,000 of the unrecognized cushion remained going forward into the 2019-2010 plan year.

Regarding the ongoing discount rate assumption, because the Plan is trending towards significant negative cash flow, we would like to have the Trustees approval a change to 6.75% which would take effect with next year's valuation.

Member Johansson moved to approve the October 1, 2018 Valuation Report. The motion was seconded by Member Rivera and the motion passed.

Mr. Leonard provided a brief report on GASB 67 & 68 which is of no impact to the Plan. As of September 30, 2018: Total Pension Liability is $38,022,126; Plan Fiduciary Net Position is $33,851,008; Net Pension Liability is $4,171,118 and the Plan Fiduciary Net Position as a percentage of the Total Pension Liability is 89.03%.

As of September 30, 2018, Pension Plan membership consisted of the following: 99 Inactive Members or Beneficiaries currently receiving benefits, 16 Inactive Members entitled to but not yet receiving benefits; 100 Active Plan Members. FS 2018 Actuarial Assumptions applied to all periods in the measurement: Inflation rate is 3%, Salary Increase 4.0% and Investment Rate of Return is 7.0% represented under Section 8 in the GASB67-68 report.

Member Johansson moved to approve both GASB 67 & 68 Reports. Member Rivera seconded the motion and the motion passed.

2018 Financial Statements- James Moore

Mr. Zach Chalifour presented the audit for fiscal year ended September 30, 2018, reporting that they rendered a clean, unqualified opinion. The net investment income for the year was $3,846,860 which was $478,286 higher than the 2017 income; Total Employer Contributions were $735,559 which was $58,774 lower than the 2017 Employer Contributions; Total Employee Contributions were $318,883 which was $41,302 lower than the 2017 Employee Contributions. Operating expenses for fiscal year ended 9/30/2018 were $73,629. Total benefits paid were $2,558,198 which was $403,377 greater than 2017. All those numbers totaling a balance of $35,365,314 as of September 30, 2018 which was $2,269,475 higher than 2017 total Plan net assets. Mr. Chalifour reported that he found no compliance or internal control issues to be reported to the Trustees. In the Auditor's opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the City of Port Orange General Employees Defined Benefit Retirement Plan as of September 30, 2018 and changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Member Johansson moved to approve 2018 Financial Statements. Chairman Ferreira seconded the motion and the motion passed.

February 2019 – Dave Leonard

Actuary Dave Leonard reviewed the financials with the Board. It was noted that the market value of the Fund is $34,252,619.14, an increase of $759,933.04. Receipts for the month totaled $1,203,357.92 versus total disbursements of $1,278,055.37. Payments to retirees and other participants totaled $203,845.55. The balance as of February 28, 2019, was $1,039,928.44 in the Cash account. Actuary Leonard reported that the yield for the month is 2.60%.

Highland Capital – Todd Wishnia

Mr. Todd Wishnia distributed an additional handout about the performance of the Fund. As of December 31, 2018, the City of Port Orange General Employees Retirement Pension Fund's Highland Capital Management balanced account was valued at $5,903,914.00. For the fourth quarter, the Highland Capital Management balanced portfolio returned -12.81% which was 1.08% lower than the Index of -11.73%. Fiscal Year to Date the Plan earned -8.69% and 6.46% for the past five years on an annualized basis. It was noted that the asset allocation is as follows: 98.8% in Value and 1.2% in Cash/Cash Equivalents. The top three holdings by sector are as follows: Financials, 26.2% of the portfolio and returned -16.3%; Heath Care, 16.1% of the portfolio and returned -6.70%; and Info. Tech, 11.8% of the portfolio and returned -12.7%.

Mr. Wishnia provided a brief report on the economy. Mr. Wishnia reported that the fourth quarter of 2018 turned in the worst equity performance for a quarter since 2008, dropping 13.5%, and the worst December since 1931. No equity category was left unscathed, and for that matter, most asset classes were negative for the year, with the exception of a few Bond categories, and of course Cash. The Fed raised interest rates four times in 2018, with rising rates, slowing growth and negative sentiment. Mr. Wishnia noted he does not think the market is headed for a recession.

Southeastern Advisors
Mr. Swanson reviewed the investment performance report for the period ending December 31, 2018. Volatility returned to the U.S. stock market with concerns of an economic slowdown due to fears of additional rate increases by the Federal Reserve, ongoing trade negotiations between China and the U.S. and increasing, post-election political dysfunction in Washington resulting in a government shutdown. This pushed the U.S. stock market to its worst quarter since 2011 and the first down year since the Federal Crisis. Economic data continued strong with solid GDP and nonfarm employment growth drove the unemployment rate below 4% for the first time since 2000. Real GDP growth maintained a strong pace during the third quarter of 2018, at 3.4% annualized. Consumer spending and private investment were the main contributors to real growth, while government spending was up slightly. Businesses grew their inventories significantly during the quarter, adding more than 2% to economic growth. A change in net exports detracted from growth during the quarter due to an outsized increase in imports.

Mr. Swanson reported that the value of the Fund's portfolio as of December 31, 2018, was $31,745,281. The Total Fund returned -8.9% for the fourth quarter which was -0.9% lower than the target Index of 8.0% and ranked 59% of Total Public Fund Sponsors, -2.0% for the one year, and 7.0% for the past three years on an annualized basis. The asset allocation is 48.10% Domestic Equity, 20.7% Fixed Income, 10.1% International Equity, 17.7% Real Estate and 3.4% Cash. Total Domestic Equities' return was -15.2% which was 1.7% below the S&P 500 Index of 13.5%. Total Fixed Income returned 1.4% which was 0.2% below to the Barclays Aggregate Index of 1.6%. Total International Equities' return was -12.7% which was 0.2% below to the MSCI EAFE Index of -12.5%. Total Real Estate's return was 1.2% which was 0.2% higher to the NCREIF Property Index of 1.4%.

Mr. Swanson reported that the Manager Allocation is 18.8% managed by Highland Capital, 10.4% managed by Atlanta Cap, 4.6% managed by Euro-Pacific Growth, 5.7% managed by Vanguard Global, 17.9% managed by Principal Real Estate, 20.5% managed by Boston Company and 22.1% managed by Integrity.

Mr. Swanson updated that up to March 22, 2019 the plan was positive for the year with assets totaling $34, 063,012.

The Board discussed that the funding of the Real Estate portfolio. The Chair noted the Real Estate portfolio is currently allocated at 15% according to the Investment Policy. The Pension Fund is currently funded at 16% which is within the spread. The Board is considering an asset allocation to 20% with our policy target of 25% for the future. Mr. Swanson suggested to raise $1 million adding to the Real Estate portfolio to capture the 20%

asset allocation. Member Hadley moved to raise the real estate allocation by $1 million. Member Johansson seconded the motion and the motion passed. Mr. Swanson will provide a letter to the Benefits USA to raise the cash.

UNFINISHED BUSINESS:

Actuary Study for Pension Cost-of-Living Increase

Mr. Leonard reviewed the costs for the Pension Fund Cost-of-Living Increase and the impact to the Plan, as well as the permanent 3% COLA. There was much discussion regarding the COLA and its implementation. Attorney Chudachek went over with the Board the language in the Ordinance as it relates to being able to grant an Ad-hoc COLA or not. He advised the Board that per the Ordinance, if after review of a study as to whether or not a COLA can be granted, the Board has the authority to do so, as long as if by granting the COLA, it wouldn't have an effect on the current funding of the Plan. Based upon the actuarial review from the Actuary and hearing from the Actuary, it appears that if a COLA were voted to be granted then there would be additional liability added to the Plan and it would have an effect on the current funding of the Plan and the City's contribution would increase in order to account for the COLA. As such, if the Board did vote for a COLA from what we've heard from the Actuary it wouldn't be in accordance with the Ordinance. Mr. Johansson noted that it appears that there are a few hurdles to overcome to see this to fruition and the fact the Union is in negotiations this year so there may be a chance to make some positive changes. Mr. Johansson noted that a COLA is the one item he hears the most about from retiree's, not from just this City but from most Cities with retirees with a cost of living. The Board attorney Brent Chudachek noted that if the Board decides to grant the COLA, the City commissioners still have to vote on the issue. The Board attorney also noted that the current ordinance should be amended because the way it is written now, it does not appear that a cost of living could ever be passed. Additionally, Mr. Johansson commented that the cost of living could be used as a recruitment tool to retain employees and stated that this conversation should continue at future meetings. Attorney Chudachek also reminded the Board that a motion is in order to approve the rate of return of 6.75% as recommended by the actuary.

Mr. Johansson moved to table the Cost of Living Increase and the assumed rate of return of 6.75%. Chairman Ferreira seconded the motion and the motion passed.

NEW BUSINESS:

Custodial Service Fee RFQ

Chairman Peter Ferreira suggested tabling this issue to next meeting since the conference room is booked for another meeting at 3:30 pm. Member Johansson moved to table this item to next agenda. Member Hadley seconded the motion and the motion passed.

Bruce Ferguson – Early Retire Payment for Approval

Chairman Peter Ferreira reviewed the documents reflecting the retirement payment for Mr. Bruce Ferguson. Member Hadley moved to approve the retirement and the supplement for Mr. Geno. Member Johansson seconded the motion and the motion passed.

CONSENT AGENDA:

For Approval:

Warrant #143

Benefits USA, Inc. (Admin Fees 3/2019; INV #POG113)	$ 2,500.00
James Moore (2018 Audit INV #582782)	$ 7,000.00
Rice Pugatch Robinson Storfer& Cohen PLLC (Ste 2)	$ 660.00
James Loper (STMT #47 dated 2/28/19)	$ 175.00

Hearing and seeing no changes, Member Hadley moved to approve Warrant #143. Member Rivera seconded the motion and the motion passed.

Distributions:

Voluntary Plan

Richard Meadows	Partial Withdrawal	$ 25,000.00

The Members reviewed the paperwork for the above distribution that the paperwork is in order. Member Johansson moved to approve the distributions as noted above. Member Hadley seconded the motion and the motion passed.

REPORTS:

Comments from Committee Member:

Member Johansson asked the vendors to send their reports to the Board Members via email instead of hard copies. This will allow the Board Members to have more time to review the documents and be prepared for the meeting.

NEXT MEETING DATE:

April 22, 2019 @ 2:00 p.m. – Regular Meeting

ADJOURNMENT:

The meeting adjourned at 3:23 p.m.

Chairperson

4/22/19

Date