

**CITY OF WEST MELBOURNE
POLICE OFFICERS' RETIREMENT BOARD
FEBRUARY 6, 2019**

The West Melbourne Police Officers' Retirement Board held its quarterly meeting on Wednesday, February 6, 2019 in the City Hall Conference Room, 2240 Minton Road, West Melbourne, Florida.

MEMBERS PRESENT: Chairman Scott Morgan (resident member)
Secretary Jennifer Curran (police member)
Pat Bentley (resident member)

MEMBERS ABSENT: James Parsons (police member - excused)
Harvey Whitney (fifth member – excused)

CONSULTANTS: Pedro Herrera, Board Attorney – Sugarman & Susskind*
Kerry Richardville, Investment Consultant–AndCo Consulting
Patrick Donlan, Actuary – Foster & Foster
Karan Rounsavall, Plan Administrator

STAFF: Margi Starkey, Finance Director (arrived at 9:23 a.m.)

Chairman Morgan called the meeting to order at 9:03 a.m. A quorum was in attendance.
*Attorney Herrera attended the meeting via Skype arriving at 9:07 a.m.

At this time, the Retirement Board recognized Deputy Chief Richard Cordeau for his many years of dedicated and loyal service as a trustee of the West Melbourne Police Officers' Retirement Board. He was presented with an engraved plaque recognizing his service since 2008.

ELECTION OF OFFICERS

Pursuant to the Retirement Board's *Administrative Rules and Procedures*, a chairperson and secretary were to be elected every two years. The last election of officers was held on November 2, 2016 at which time Member Scott Morgan was re-elected as chairperson and Member Jennifer Curran was re-elected as secretary.

The floor was opened for nominations. Member Bentley nominated Scott Morgan as chairman. Member Curran indicated her willingness to continue to serve as secretary. There were no other nominations. *By acclamation, Scott Morgan was re-elected as chairman and Jennifer Curran as secretary for another two-year term.*

APPROVAL OF MINUTES

Member Curran moved to approve the minutes of quarterly meeting November 7, 2018 as submitted. Member Bentley seconded the motion and it carried unanimously.

OFFICER AND TRUSTEE REPORTS – None

PROCESSED DISBURSEMENTS/RECEIPTS

Member Curran moved to approve plan expenditures for the first quarter of Fiscal Year 2018/2019 (October 1, 2018 through December 31, 2018) in the amount of \$29,636.67 and to acknowledge receipts to the plan for that same fiscal quarter (through December 31, 2018) in the amount of \$160,322.36. (Reference Plan Administrator's memo dated January 4, 2019 for detail.) Member Bentley seconded the motion which carried on an all yes vote.

Total disbursements during the quarter were \$161,042.48 which included monthly benefit payments to 16 retirees in the amount of \$131,405.81, and expenses noted above.

CONSULTANT REPORTS

A. Kerry Richardville – AndCo Consulting (Performance Monitor & Advisory Services)

- Performance Report for quarter ended December 31, 2018

Mrs. Richardville presented the performance report for the quarter ended December 31, 2018. It was a very challenging quarter for equities, in fact, the worst in nearly a decade. Fear and economic uncertainty drove the markets. Trade tensions with China, midterm elections, tightening of monetary policy by the Federal Reserve, and the partial government shutdown, etc. outweighed any positive news reported during the quarter. The S&P 500 Index (domestic equity) ended the calendar year in negative territory. International equities also experienced considerable losses. Fixed income returns, while muted, were the safe haven for the quarter.

Total market value as of December 31, 2018 was \$13,973,193 down from \$15,263,547 for the previous quarter ended September 30, 2018. On a percentage basis, the composite portfolio was down -8.41 percent for the quarter (gross) which ranked in the 40th percentile of public plans. Since the first of the year, the retirement plan was up nearly nine percent and had recouped two thirds of its losses in the first fiscal quarter. The portfolio was valued at \$14,788,142 as of February 5, 2019.

Quarterly performance results (i.e. quarter ending December 31, 2018) for the various investment styles/managers represented in the portfolio were as follows:

Garcia Hamilton & Associates (domestic fixed income) – positive return of 1.46% (41)*

EuroPacific Growth (international) – negative return of -12.59% (55)*

Vanguard Total Stock Market Index Fund – negative return of -14.26% (46)*

Templeton Global Total Return (global fixed income) – positive return of 2.25% (2)*

BlackRock Multi-Asset Income Fund (other assets) – negative return of -4.48% (18)*

ASB Allegiance Real Estate Fund (real estate) – positive return of 1.45% (88)*

(*Percentile rankings)

All asset classes were in line with policy targets. No rebalancing was necessary.

The board accepted the investment performance report as presented.

B. Patrick Donlan – Foster & Foster (Actuary)

- Presentation of annual valuation for fiscal year ending October 1, 2018

At its quarterly meeting on November 7, 2018, the retirement board received the results of an actuarial experience study which examined plan experience from 1993 through 2017. A number of assumptions were changed at that meeting and incorporated into the 2018 valuation. As directed at the previous meeting, Foster and Foster prepared the 2018 valuation using two methods of determining actuarial costs: *Frozen Entry Age (currently used)* and *Entry Age Normal (amortized over 20 years)*. With the resulting costs of each method known, the retirement board would be in a position to make an informed final decision on this particular assumption.

Actuary Patrick Donlan presented the October 1, 2018 Actuarial Valuation Report for the West Melbourne Police Officers' Retirement Plan. The valuation established the annual contributions applicable to the Retirement Plan for the fiscal year ending September 30, 2020.

The retirement plan was extremely well funded with an investment return of 8.75 percent based on market value of assets. On a smoothed actuarial asset basis, the investment return was 8.20 percent; both of which exceeded the assumed investment rate of return of 7.10 percent. Actuarial experience, when compared against the Plan's assumptions was favorable overall. Sources of favorable experience included salary increases less than expected and investment returns greater than expected. These gains were offset in part by losses associated with a disability retirement which generated a \$230,000 loss and turnover which was less than expected.

The minimum required contribution for the current fiscal year (2018/2019), including the estimated State contribution, was 18.81 percent of non-DROP pensionable payroll. For Fiscal Year 2019/2020 (with assumption changes), the required contribution was 20.07 percent. The 20.07 percent contribution rate was predicated on the *Entry Age Normal* actuarial cost method. Mr. Donlan emphasized that this was the cost method used by most retirement plans.

Member Bentley moved to utilize the "Entry Age Normal" actuarial cost method for the current valuation as well as future valuations. Member Curran seconded the motion and it carried unanimously.

Mr. Donlan went on to emphasize the retirement plan's conservative assumptions and noted excess city contributions in the amount of \$214,000 during the fiscal year which directly reduced the unfunded liability. The unfunded accrued liability (UAL) using the new assumptions was \$1,013,990. The plan's funded status was 93.6 percent (i.e. actuarial value of assets as a percentage of total actuarial accrued liability). However, using the market value of assets over the present value of accrued benefits, the funded status was 112.1 percent.

As to the use of premium tax revenues, future state monies would be first utilized to provide a \$600 allocation to individual share accounts for each member hired after January 1, 2011 who had completed at least one full year of service. Following allocation to share accounts, any remaining state monies would be available to the city in order to offset its required contribution.

There were no questions. *Member Curran moved to approve the annual actuarial valuation report as of October 1, 2018 as presented (using the "Entry Age Normal" method of determining actuarial cost). Member Bentley seconded the motion and it carried unanimously.*

Mr. Donlan presented the annual member statements for active participants as well as the share account statements. The cost for preparing the share account statements was \$750 (rather than the contractual \$1,500) because the city prepared preliminary information which only required review and verification by the actuary. Plan Administrator Rounsavall would distribute the statements to members.

- Declare expected annual rate of investment return for assets of West Melbourne Police Officers' Retirement Plan for short term and long term thereafter in accordance with Section 112.661 *Florida Statutes*

Member Bentley moved to approve a 6.95 percent expected rate of return on investments going forward (based on advice of plan consultants). Member Curran seconded the motion which carried on an all yes vote. Plan Administrator Rounsavall would prepare the required correspondence to the Division of Retirement advising of the expected annual rate of return.

C. Pedro Herrera – Sugarman & Susskind (Attorney)

- Legislative Update

Attorney Herrera reported that there were no prefiled bills pending that would impact the Retirement Plan. There was some discussion as to expanding presumptive diseases for police officers and firefighters but these had yet to be introduced.

The attorney also reviewed the workers' compensation offset for Disability Retiree Daniel Swartzfager. As it did not exceed his monthly disability benefit, there was no cause for concern.

D. Karan Rounsavall – Plan Administrator

- Acknowledge Mark Thompson's pending exit from DROP and start of monthly benefits as of March 1, 2019

Plan Administrator Rounsavall advised that Capt. Thompson would separate service at the conclusion of his DROP period on March 1, 2019. On that date, his DROP balance would be processed as a rollover out of the West Melbourne Police Retirement Plan. Investment Consultant Richardville was aware of the lump sum cash requirements and would orchestrate the necessary fund transfers. Mrs. Rounsavall also mentioned that Capt. Thompson was eligible for a 1.92 percent cost-of-living adjustment as of October 1, 2019.

- Report on waiver of recourse coverage now included with fiduciary liability insurance provided by U.S. Specialty Insurance Company

As directed by the Retirement Board at its November 7, 2019 quarterly meeting, Mrs. Rounsavall inquired of Melissa Solis, Trust Services Supervisor with Florida Municipal Insurance Trust (FMIT) as to whether or not the Retirement Plan could be invoiced separately for waiver of recourse coverage. The bottom line response was "no." Ms. Solis advised that insurance carriers with whom FMIT worked recently decided to include waiver of recourse coverage in the base policy. The separate premium was gone but the coverage remained which protected trustees and the plan administrator from recourse actions.

OLD BUSINESS - None

NEW BUSINESS

- A. Status of proposed ordinance implementing buyback provision and clarifying definition of "average monthly compensation" as it relates to calculating disability retirement benefits

A request to draft a proposed ordinance in accordance with the recently approved Memorandum of Understanding (MOU) with the Police Benevolent Association (PBA) providing for the purchase of prior military and law enforcement service was forwarded to Attorney James Linn (the City's outside counsel for pension-related matters). The proposed ordinance would also clarify the definition of *average monthly compensation* as it related to calculation of disability retirement benefits.

This raised the question as to methodology to be used for costing the buyback of prior service. With the understanding that the buyback should be cost neutral to the retirement fund, Actuary Donlan explained that typically he would determine the present value of benefits without the buyback and compare that to the present value of benefits with the buyback of additional service. The increase represented the cost to be paid by the participant.

Upon receipt of the proposed ordinance from Attorney Linn, it would be forwarded to Plan Attorney Herrera for his review and to the actuary for the required impact statement. *Plan Administrator Rounsavall would work with Attorney Herrera to develop an application for purchase of prior service as well as revisions to the Board's Administrative Rules and Procedures.*

Board determination of the cost method for purchasing prior military or law enforcement service would be an agenda item for the next quarterly meeting.

Related to the discussion on purchase of prior service, Actuary Donlan asked whether or not a participant could buyback time while in DROP from one agency to another. Attorney Herrera felt that it would be permissible but wanted to ask the State Division of Retirement for an informal opinion as this situation could be quite involved. He would inquire of the State prior to the next meeting as a general question without specifically mentioning the West Melbourne Police Retirement Plan.

Actuary Donlan raised a second question. Could a participant who separated service from an agency covered by Florida Retirement System (FRS) and who was enrolled in the defined contribution plan (i.e. investment plan), rather than the defined benefit plan, purchase the time spent with the FRS employer. Attorney Herrera stated that the answer in this situation was clearly "no."

PUBLIC COMMENT - None

ADJOURNMENT

The meeting adjourned at 10:53 a.m.