

Police Officers' Pension
Board of Trustees
October 22, 2008 9:30 a.m.

Board Members Present:

Eric Ball, Chair
Kenny Bright
Rex Hannaford, Secretary
Mike Stinson
Gerald White

Staff and others present:

Scott Christiansen, Attorney
Rusty Creighton, Sawgrass Asset Management
Dave West, Bogdahn Group
Bryan Bakardjiev, Bogdahn Group
Diane Ponder, Administrative Assistant

Chairman Ball called the meeting to order at 9:30 am.

1. APPROVAL OF MINUTES

MOTION: Mr. White moved, Mr. Stinson seconded and motion carried 5-0 to approve the July 23, 2008 minutes as presented.

2. INVESTMENT REVIEW

Rusty Creighton, Sawgrass Asset Management, stated that because of the events unfolding in the stock market, the quarterly report for the period ending September 30, 2008 is stale information. Mr. Creighton discussed the current credit crisis and stock market performance and how Sawgrass Asset believes the market will perform for the short term. He opined that in time governmental intervention will result in a cumulative effect that will avoid a depression. He further speculated that nothing the government does will prevent a recession, and stated his opinion the country is currently in a recession, which he feels will last at least until the middle of next year. Mr. Creighton also discussed the positive signs in the stock market; pricing and the record amount of cash "on the sidelines". He stated that typically the stock market will improve four to six months before the economy improves.

The September 30, 2008 quarterly report disclosed a value of \$6,646,722, which is a net loss after contributions and withdrawals of \$437,419; 54% in equities, 43% in fixed income and 3% in cash and equivalent. He reported that this month the asset allocation has shifted more to equity and currently the allocation is 57% in equities and 42% in bonds, both within policy of 60% in equity and 40% in fixed income.

Dave West, Bogdahn Consulting, inquired if there has been a change in the long term strategy for the Plan. Mr. Creighton discussed the strategy Sawgrass Asset is currently employing to protect the portfolio; more sector neutral and ultimately becoming more aggressive as the economy begins to improve.

Discussion ensued on the market's effect on the declared annual rate of return and the expected difficulty in achieving the 8% goal, with Mr. Creighton stating his personal opinion that a 5% to 6% rate is more realistic going forward. Referring to a portion of the Bogdahn Consulting report comparing strategies through historical bear markets as defined by the S&P 500, Dave West

opined that with the investment losses, it will be very difficult to achieve the declared rate of return but, it is very important to maintain a long term perspective; the program operates until the last participant is paid out. Mr. West stated that if it is decided to become more conservative in the investment strategy, there is no chance to recover the losses, based on the comparison study under discussion. Mr. West compared the government's reaction during this crisis compared to the lack of governmental intervention during the Great Depression. He stated Bogdahn Group is comfortable with the long term assumption currently in place. Attorney Christiansen offered that it may be difficult to convince the state actuary Charles Slavin to take the Plan's long term view, as he is now taking a short term view; if a plan does not meet the actuarial assumption, plans may have to take action to correct the shortfall.

The Plan's actuary, Steve Palmquist of Gabriel Roeder Smith & Company, informed the Board the assumed rate of return is 8.25%, and suggested 7.5% would be a rate that should be considered. Because the result of lowering the assumed rate of return is an increased contribution requirement, some plans are accomplishing the reduction over a period of time. Mr. Palmquist confirmed that Mr. Slavin has not commented on any of his clients that are slowly lowering their rates. Attorney Christiansen briefly explained the rules being promulgated by Mr. Slavin, the letters he has written commenting on other plans and the actions the Board can take to avoid receiving Mr. Slavin's letter. Mr. Palmquist commented on the 4.5% rate of return the portfolio has earned (as reported by Sawgrass Asset Management) over the past ten years. Mr. West again encouraged the long term look when making assessments and recommended that a strong adherence to the policy be maintained in the investment strategy.

Mr. West introduced Bryan Bakardjiev of the Bogdahn Group.

3. REVIEW OF EXPENSES

- A) Christiansen & Dehner – July and August 2008 billings
- B) Bogdahn Group – September 2008
- C) Sawgrass Asset Management – September 2008
- D) Salem Trust – September 30, 2008

MOTION: Mr. White moved, Mr. Hannaford seconded and motion carried 5-0 to approve the expenses as presented.

4. 2007 ACTUARIAL VALUATION REPORT

Mr. Palmquist reviewed the report with the Board. The net required employer contribution for fiscal year 2008 is \$180,120 or 9.74% of payroll; estimated state contribution is \$101,867, 5.51% of payroll. Mr. Palmquist explained the unfunded actuarial accrued liability, which this year showed a gain of \$170,713, resulting in a credit of \$18,707 for the next fifteen years. Mr. Palmquist explained the method used to calculate a loss or gain (asset smoothing method), and how that loss or gain impacts the required contribution amount.

Mr. Palmquist projected the expected actuarial value of assets will be approximately \$8.5 million for the year. Based on the report from the investment manager, the portfolio will experience a loss due to investments of approximately \$1.2 million this year, which will increase the city's cost by approximately \$150,000 beginning October 1, 2009. Looking only at investments, the city's cost will increase from \$180,000 to approximately \$320,000.

Mr. Palmquist suggested looking at a different asset smoothing method, which could possibly lower the cost to the city. He also suggested that lowering the assumed rate of return over a period of time could result in a lower percentage of payroll each year; each ¼ percent the rate is lowered would result in an increase of 2% or 3% of payroll. Mr. Palmquist will send information concerning the different calculation methods he discussed for the Board's review.

Mr. Palmquist discussed what would have to occur if the city is unable to pay the required contribution; in short, benefits would have to be adjusted. Attorney Christiansen questioned if the

experience loss payment can be extended by the city. Mr. Palmquist stated the statute allows a 30-year extension, which would help lower the cost; in practice Mr. Slavin may object. Mr. Palmquist reiterated that an 8.25% rate a return is not realistic given the Plan's investment allocations.

Attorney Christiansen suggested that if the Board wished to see information on the changes Mr. Palmquist is suggesting, he should be authorized to perform the calculations by motion. Mr. Palmquist commented on the salary assumption calculation that was amended in 2004, questioning if the percentage for years of service 1-10 is set too high; if the assumption is too high then a gain will be experienced. Mr. Palmquist also stated that even reducing the rate over a five year term is better than doing nothing at all.

Mr. Palmquist confirmed that the 2008 Actuarial Valuation Report is in the preparation process at this time. He suggested developing alternatives for the Board's review and decision, after which that information will be used to complete the report.

MOTION: Mr. Bright moved, Mr. White seconded and motion carried 5-0 to authorize Mr. Palmquist to formulate different alternatives as discussed.

5. OTHER BUSINESS

A) Chief Garry Lowe's petition to extend his participation in the DROP

Attorney Christiansen stated that the DROP provision only allows participation for a maximum five year period beginning at the normal retirement date. Chief Lowe entered the DROP two years past his normal retirement date of September 3, 2006, thus he can only participate for three years from the first eligible date of 2011 vs. the date of 2013 on the DROP application. Attorney Christiansen suggested that the Board can amend the DROP by eliminating the provision he described, and change the DROP to allow participation for a maximum five-year period after application for all current and future Plan members. The recommended the change would then be forwarded to the City Commission for approval.

MOTION: Mr. Bright moved, Mr. Stinson seconded and motion carried 5-0 to authorize Attorney Christiansen to prepare the ordinance to amend the DROP, as discussed.

Mr. Palmquist confirmed there will be no additional cost to the plan as a result of the amendment. Attorney Christiansen informed the Board that the previously approved PLOP amendment would also be added to the ordinance that will amend the DROP.

MOTION: Mr. White moved, Mr. Stinson seconded and motion carried 5-0 to approve the retirement benefit amount for Chief Garry Lowe.

B) Gabriel Roeder Smith & Company valuation fee increase

Mr. Palmquist informed the Board his firm was requesting a fee increase due to the fact the amount actually spent preparing the Valuation Report is significantly more than the agreed upon time expended. The addendum to the agreement will be forwarded to Attorney Christiansen for his review prior to it being executed.

MOTION: Mr. Bright moved, Mr. Hannaford seconded and motion carried 5-0 to approve the Gabriel Roeder Smith & Company valuation fee increase.

Attorney Christiansen confirmed he will prepare an addendum to the contract.

C) The Board approved the 2009 meeting dates as presented.

6. ATTORNEY CHRISTIANSEN'S REPORT

Staff confirmed the letter of investment return has been mailed to Mr. Slavin.

Staff confirmed the Financial Disclosure Forms have been filed.

Attorney Christiansen commented on the need to provide City Commission the annual report of investment activity of the Plan.

Attorney Christiansen informed the Board an entire packet of revised pension forms has been provided to staff. Further, the special tax notice has been provided.

Attorney Christiansen commented on the rules being promulgated by Mr. Slavin. Mr. Palmquist stated the second meeting was much better attended, with everyone in agreement not to change the rules regarding pensions.

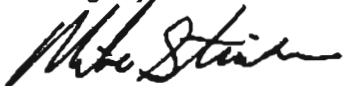
Attorney Christiansen stated an ordinance is being prepared to ensure the Plan remains in compliance with the IRS.

State funds were received of \$108,000, the same amount as last year. This year was the last guarantee year of the same level of funding as 2004. It is possible there may be a slight reduction in the revenue next year.

Mr. Hannaford questioned Mr. Stinson concerning the survey regarding 20 and out. The bulk of the members have stated they do want to see an actuarial study to determine the cost. Mr. Stinson could not confirm the amount the members would be willing to contribute. Mr. Palmquist stated the cost should be within 2-5%. Attorney Christiansen suggested the timing of the issue should be considered, given the current economic environment. Attorney Christiansen discussed the Statute that requires a corresponding increase in benefits that must accompany an increase in member contribution; not what is being discussed by the recent survey.

MOTION: Mr. Hannaford moved, Mr. Stinson seconded and motion carried 5-0 to table any consideration of a 20 and out benefit.

Meeting adjourned at 10:45 am.



Rex Hannaford
Secretary