August, 2017

POLICE AND FIREFIGHTERS' PENSION BOARD
REGULAR BOARD MEETING
888 South Andrews Avenue, Suite 202
Fort Lauderdale, FL 33316
Wednesday, August 9, 2017, 12:30 P.M.

Communication to the City Commission:

- The Plan's return on Investments for the third quarter is 2.64%; the return for the first three quarters is 8.3%; the return for one year is 11.27%.
- The market value of plan assets increased by $35 million during three quarters of the plan year.
- The 2016 Annual Report had been filed with the State and approved.

Present

Michael Dew, Chair
Ken Rudominer, Vice Chair
Scott Bayne, Trustee
Jeff Cameron, Trustee
Richard Fortunato, Trustee
Dennis Hole, Trustee
Jim Naugle, Trustee
Lynn Wenguer, Executive Director

Also Present

Alexandra Goyes, Deputy Director
Jazmin Elliott, Administrative Aide
Ashley, Hartman Alson, Northern Trust
Fred Nesbitt, Board Communication Director
Ash Benzo, City Treasurer
Linda Logan-Short, Deputy Director/CFO
Robert Klausner, Board Attorney
Major Gregory Salters, Police Dept. Human Resources
Kevin Schmid, CAPTRUST
Paul DeBold, Retirees Association
Jim Ingersoll, President, Retirees Association
Derek Joseph, Police Dept.
Deborah Burke, Police Dept.
RC White, Retirees Association
John Herbst, City Auditor
Jamie Opperlee, Recording Secretary, Prototype Inc.

ROLL CALL/CALL TO ORDER

Chair Dew called the meeting to order at 12:30 p.m. Roll was called and a quorum was determined to be present.

PLEDGE OF ALLEGIANCE/MOMENT OF SILENCE

The Pledge of Allegiance was followed by a moment of silence.

MINUTES:

Regular Meeting: July 12, 2017

Motion made by Mr. Naugle, seconded by Mr. Rudominer, to approve the minutes of the July 12, 2017 meeting as amended. In a voice vote, the motion passed unanimously.

COMMENTS FROM THE PUBLIC
None.

NEW HIRES
Chair Dew recognized the new hires.

BENEFITS:	**FIRE DEPT.:**	**New Retiree: (Term of DROP)**	**James Tuttle**
		DROP Retirement:	**Donnie Alexander**
			Nathan Butler Jr.
			Darryl Gustafson
		New Beneficiary:	**Nancy Roth**
	POLICE DEPT.:	**Service Retirement:**	**Melvin L Hancock Jr.**
		Lump Sum Refund Request:	**Davide Bennardi**
		New Beneficiary:	**Annis Banks**
		Retiree Death:	**Joseph Stanhope**
		Survivor Death:	**Joan Hammond**

Motion made by Mr. Bayne, seconded by Mr. Rudominer, to approve payment of the benefits as documented. In a voice vote, the motion passed unanimously.

BILLS:	**Vaughan Nelson**	$75,514.82
	Agincourt	$42,455.16
	Boyd Watterson	$39,261.00
	Northern Trust	$34,237.77
	Aristotle	$26,172.50
	Sawgrass Mgmt.	$26,213.25
	Rhumbline	$13,407.00
	Foster & Foster	$7,500.00
	Intech	$4,985.29
	Klausner & Kaufman	$930.00

Ms. Wenguer had requested an itemized bill from Foster and Foster because the bill was the exact same amount as the fixed amount they had requested. The itemized bill totaled $7,550 and they had rounded down to $7,500.

Motion made by Mr. Rudominer, seconded by Mr. Hole, to approve payment of the bills as documented. In a voice vote, the motion passed unanimously.

ATTORNEY'S REPORT
Mr. Klausner had brought up the funding policy with Mr. Heinrichs but did not have his comments yet.

Mr. Klausner reported Lazard had agreed to all the things he had put in the side letter to protect the interest of the Fund and Mr. Klausner had informed Ms. Wenguer he was satisfied and she could fund the investment.

Regarding the funding policy, Mr. Klausner had taken what Mr. Hole had written and removed the explanatory comments because he felt the policy statement sufficiently spoke for itself. He advised that the explanatory comments could be made an appendix to the policy.

INPUT FROM ACTIVE & RETIRED POLICE OFFICERS & FIREFIGHTERS

Mr. Ingersoll reported four members had passed away since the last Board meeting. He asked Board members to attend the September 6, 2017 City Commission meeting to support the retirees.

COMMUNICATION DIRECTOR'S REPORT:

Mr. Nesbitt had received an inquiry from a Dallas newspaper regarding Fort Lauderdale Police and Firefighters who were in the DROP plan, were out on injury and being paid by the City. He had referred the request to the City.

Mr. Klausner said the issue in Dallas had been that the DROP was unlimited; a member could stay in as long as he/she were alive and could get into the station. Also 56% of the plan assets were DROP assets still on deposit. There had been a serious run on the bank and Dallas had sold off liquid assets and been left with a portfolio with 70% in non-liquid alternatives.

Ms. Wenguer informed the Board that the newspaper had put in a public records request and she had supplied the information.

SERVICE INCURRED DISABILITY APPLICATION FOR DEBORA BURKE

Ms. Burke said she had been in a motor vehicle accident in her marked patrol unit in August 2013 and sustained a neck injury. An MRI showed four herniated disks, for which she had undergone surgery in April 2014. The surgery had improved her condition but she was still in pain requiring daily medication. The disk injury had also worsened her carpal tunnel syndrome and she had undergone surgery for that in 2015. The improvement in her hand was still not enough to qualify her for service. Ms. Burke said had been working at Station Report, a light duty position, for two years.

Major Salters reported the Police Department had no permanent light duty positions.

Mr. Klausner asked about a 1993 accident in which Ms. Burke had been involved when she was employed in the Miami Police Department. Ms. Burke described this as a T-bone accident when someone made a legal left turn in front of her. In the 2013 accident, a vehicle changing lanes had struck her vehicle. Her airbags had not deployed and she had not been transported from the scene. Ms. Burke stated she had only recently learned that she had received a disability rating from Workers' Comp after the 1993 accident. She was retired from the Miami Police Department and was in receipt of a service retirement.

Mr. Hole referred to the packet and said it mentioned "permanent impairment" regarding Ms. Burke's 1993 accident in Miami and wondered how she could have been hired by Fort Lauderdale. He said there also seemed to be a difference of opinion regarding the number of accidents. Mr. Hole stated on page 63, Ms. Burke had denied "similar past medical history or symptoms or treatments of your complaints subsequent to the August 13 accident."

Ms. Burke said in the 1993 accident, she had suffered only soft tissue injury and had been able to function as a full duty Police Officer. Chair Dew referred to a letter dated 10/26/95 from the Director and the Miami City Manager to the Mayor indicating Ms. Burke had permanent impairment, which may affect her ability to perform her duties as a Miami Police Officer.

Ms. Burke confirmed that on 5/1/1996 she had fallen down a flight of stairs at home and injured her knee. Chair Dew said on page 35, it indicated she had a flare-up of lower back pain and on 12/16/1997, she had severe neck pain. Ms. Burke stated this was not similar to any of the pain she was experiencing now.

Chair Dew said according to doctors who had seen her, Ms. Burke had a long history of neck, back and right hand pain, dating back to 1993.

Mr. Rudominer asked Mr. Klausner to clarify a pre-existing condition that was aggravated by a current, on-the-job incident. Mr. Klausner said there was little case law, but in order to qualify as a duty-related disability, the accident should be sufficient in and of itself to cause the disability, irrespective of the aggravation. The Board needed to determine if this was the case, based on the medical reports.

Mr. Cameron wondered why the City had covered the injury under Workers' Comp, since the 2013 accident occurred when Ms. Burke was off duty, on her way home from a detail. He asked if they were bound by the City's decision to cover this under Worker's Comp. Mr. Klausner informed the Board that they were not bound by any legal decision made regarding Workers' Comp; the only relevance was that there may be facts or medical reports that may differ from those the Board had. Ms. Burke stated she had applied for the service-incurred disability because Workers' Comp had covered it.

Mr. Klausner said the question was "whether or not you're always on duty when you're in the City limits." Mr. Rudominer felt this was not the Board's question to answer.

Chair Dew said they were discussing this now regarding Workers' Comp and off-duty details. The only time one would be considered on duty would be when responding to a law enforcement action or duty-related activity.

Ms. Burke said her original Workers' Comp claim had been denied. She sued the City, the City settled and it had been covered by Workers' Comp.

Mr. Klausner said the doctors' reports were consistent that Ms. Burke's medical condition was permanent, but they had also observed that the primary cause of the disability was degenerative disk disease, which was a product of time. He stated the Board could find Ms. Burke had not met the standard for service-connected disability because of the medical information reported, because of their review of the accident report and, as a matter of law, because she was not engaged in law enforcement action at the time of the accident. Mr. Klausner belied the Board could award Ms. Burke a non-service disability, based solely on years of service accrued.

Ms. Wenguer stated this was an informal hearing and if this was denied, Ms. Burke could return with an attorney.

Ms. Wenguer clarified that non-service disability was 50% and service incurred was 65%. She could not say if Ms. Burke met the criteria for a non-service incurred disability.

Motion made by Mr. Rudominer, seconded by Mr. Hole, to deny the application for service-connected disability retirement on the basis that the evidence presented failed to establish by the greater weight of the evidence that the applicant is permanently and totally disabled from useful and efficient service as a Fort Lauderdale Police Officer, arising from an accident occurring in the line of duty. In a roll call vote, motion passed 7-0.

CAPTRUST: (under separate cover)

Quarterly Investment Review Kevin Schmid

Mr. Schmid referred to the June 30 performance report and said this had been another good quarter, especially in equity markets. The S&P 500 was up 3% for the quarter, a little more than 9% for first six months of calendar year and just under 18% for the year.

Mr. Schmid said there were two sharply negative sectors this year, energy and telecommunications. International equities had done better than domestic. He stated valuations were creeping toward overvalued territory. Some was warranted by the interest rate environment and some by the potential expectations for improvement in economic growth.

Mr. Schmid explained that an increase in interest rates would be great for the plan in the long-term because it would provide a higher income stream into the portfolio.

Mr. Schmid then turned to the quarterly review. For the quarter, the return was 2.6% and for the three quarters of the plan year, it was up 8.3%, 80 basis points ahead of the actuarial rate of return. He anticipated they would exceed the rate for the year.

Mr. Hole asked about Invesco and Mr. Schmid stated the Private Equity Funds were still in the accumulation phase. He said the bulk of the returns would come later in the lifecycle when Invesco sold the companies in which they had invested and started distributing capital.

EXECUTIVE DIRECTOR'S REPORT:

Plan Funding

Chair Dew asked if Mr. Schmid was still comfortable with his projections regarding lowering the assumed rate of return and Mr. Schmid said his probability projections still held up. For the last five years, they had made 14-15% in returns but he did not believe this would continue over the next five years. If the plan sponsor was willing to consider lowering the rate of return and understood the increased up-front costs, it was a reasonable thing to do. Lowering the rate would increase the rate of "positive surprise versus negative surprise" down the road.

At the Board's direction, Chair Dew had met with City Manager Feldman, City Auditor Herbst and Mayor Seiler and they all agreed they should lower the assumed rate of return. Mr. Heinrichs had suggested ways to keep the funding status in the 90% range and still lower the assumed rate of return. Lowering the assumed rate of return 10 basis points would lower the funding status to approximately 90%.

Chair Dew said they had agreed that reducing the rate of return to 7% was a reasonable target and asked the Board to consider reducing it by 10 basis points for FY18-19 and 5 basis points per year after that until it reached 7%. In the interim, if they had a "stellar" year, they could buy 5 basis points to accelerate lowering the assumed rate of return. If they agreed, Mr. Heinrichs would create a projection of how this would affect all aspects of the plan.

Mr. Rudominer said they had briefly discussed a funding policy that included how they defined the rate. He felt they needed to establish the funding policy first. Chair Dew stated Mr. Schmid had indicated that their rate of return should be established using market projections, inflation and interest rates. Mr. Rudominer said the funding policy stated they established the rate of return based on expected return on assets and inflation.

Mr. Hole wished to get Mr. Heinrichs's input on the funding policy first. Ms. Wenguer recalled that in theory, Mr. Heinrichs agreed with it, but had said they did not need a policy because they had the State of Florida guidelines. Mr. Klausner explained that in 112.661 it stated what should be taken into account.

Mr. Cameron felt it was about changing the fixed income allocation. If they lowered the proportion in fixed income and put the money elsewhere, he believed they could get to 7.5% much easier as opposed to lowering the rate to 7%. Mr. Schmid had calculated that reducing fixed income to 20% improved the probability of hitting 7.5% by 6% over a ten-year period. He said they could lower the rate or rebalance the asset allocation of the portfolio to better ensure reaching 7.5%. They needed to consider if they wanted to increase the risk in the plan in order to reach the rate of return.

Chair Dew said the Board, in their fiduciary responsibility, needed to ensure the long-term stability of the plan that would pay benefits into the future, and to accomplish that, they needed a funding status above 90%, as well as an assumed rate of return that was reasonable and allowed then to pay off their unfunded liabilities and to have a stable bottom line for the sponsor.

Mr. Herbst said in the long run, there was no difference in the total cost of funding to the City. Lowering the assumed rate of return was a way to have a realistic rate, so that the funding they put in today would be sufficient to meet their needs in the future.

Mr. Naugle agreed with Chair Dew's suggestion to lower the rate incrementally and to have Mr. Heinrichs perform the study to evaluate it.

Chair Dew informed that Board that Mr. Heinrichs had indicated the cost for the study would be approximately $5,000 and Mr. Heinrichs had indicated he could have it for the Board's September meeting.

Motion made by Mr. Rudominer, seconded by Mr. Hole to have Mr. Heinrichs review the funding policy and perform a study, at a cost not to exceed $5,000, to determine the impact of reducing the assumed rate of return to 7% over nine years, 10 basis points in the first year and 5 basis points in the next eight years. I a voice vote, motion passed unanimously.

City Infrastructure Funding

Chair Dew said he had been doing extensive reading and he read an idea about plans and plan sponsors working together to ensure stable income and to have the plan invest in a municipality via an infrastructure bond. This would demonstrate the plan members' investment in the municipality. Mr. Klausner had sent Chair Dew information about municipalities that were doing this and City Manager Feldman was very amenable to the idea. Chair Dew had also talked with Mr. Schmid about it and they had determined they could invest approximately $50 - $100 million.

Mr. Klausner had looked at what was required and explained that if this was a revenue bond, the City could issue the bond without voter approval. If the City guaranteed the bond, elector approval was required. He had determined that pension funds could buy municipal bonds, provided they were investment grade or better, for up to 25% of the fund's assets.

Ms. Logan-Short explained that if they wanted to purchase bonds to build a new Police Department building, they City could pledge non-ad valorem revenue toward it instead of requiring voter approval.

Mr. Naugle stated the downside was that investing in just one entity did not spread risk. If they purchased bonds in the City's water and sewer system and the City suffered a catastrophic event, the revenue could plummet. If they purchased many $5 million municipal bonds across the country, the risk would be more spread out. Ms. Logan-Short informed the Board that the City had bond insurance.

Mr. Hole stated if the rates of return were the same as what they could get outside the City, "what are we getting for it?" Mr. Hole had been bothered by the 1986 ordinance revision that dealt with cumulative excess gain with a three-year, moving window and wondered if the two unions and the City would be open to considering revising the hurdle in return for the plan investing in a City bond. Chair Dew said this was $122 million that had nothing to do with funding status and "it makes us look bad when it shouldn't."

Mr. Klausner had emailed Ms. Wenguer the details of a leading case in New York when their pension funds bought the city's bonds in the 1970s because no one else would. It explained the due diligence the board had done prior to purchasing the bonds. He advised all Board members to read it. Mr. Herbst recalled when this had happened in New York and said the pensions were trying to keep the city, their employees and the pension plans afloat. In this case, Fort Lauderdale had no need to negotiate because they had such a high bond rating; they could get investors easily. Mr. Herbst believed the City's bonds would be good for pensions in general, but the Board must decide if it was appropriate for them. He stated there was no harm in talking to the City about the issue of the ordinance revision Mr. Hole brought up.

Mr. Schmid said the pension plan had the liquidity to use $75 million to purchase City bonds but CAPTRUST was not capable of evaluating this as an investment. He noted that a 20-year bond had a significantly longer duration than their current fixed income allocation so they had to be concerned about what would happen if interest rates rose.

Mr. Schmid also had a concern about the fact that the City was an interested party in the pension plan and this could be a prohibited transaction as a "loan to an interested party." Mr. Klausner had done research and determined that this was not a direct loan or a line of credit, so it was allowed.

Ms. Logan-Short explained the City would issue water/sewer bonds in the second or third quarter of 2018.The Utility Department had requested $150 million just for the sewer projects. They did not have the revenue for stormwater now, but the water/sewer fund was very healthy

Chair Dew asked Ms. Logan-Short to have the City's financial advisor attend the Board's next meeting or to attend via conference call to discuss this.

Mr. Klausner said City Manager Feldman agreed that the pension ordinance was unreadable and needed to be re-written. Mr. Klausner said he could do it and Mr. Feldman indicated that the pension fund would pay Mr. Klausner but the City would reimburse them.

Chair Dew said Mike Tucker had asked if Mr. Klausner could work with him on drafting language for contract negotiations. Mr. Klausner confirmed he would not be negotiating or representing anyone; he would only draft language.

PRISA II

Mr. Klausner explained that people invested in the Prudential Real Estate Fund I could get in Fund II. Fund I had been open only to pension funds and Fund II was open to everyone. He did not see a value to moving to the new Fund and advised against it. He said Fund I was geared to meet ERISA standards and Fund II was not.

Motion made by Mr. Rudominer, seconded by Mr. Bayne, to accept the second quarter actuarial assumed rate of return of 2.64%. In a voice vote, motion passed unanimously.

Regarding the additional property tax exemption for disabled first responders, Ms. Wenguer reported three people had come in for letters. Chair Dew stated one former firefighter had been granted the exemption.

Ms. Wenguer informed the Board that the State report had been accepted.

Ms. Wenguer reminded everyone of the seminar for members considering retirement on September 15. Chair Dew said Chief Maglione would allow on-duty personnel to attend.

PENDING ITEMS:

New Business:

None

Old Business:

None

There being no further business to come before the Board at this time, the meeting was adjourned at 2:45 p.m.

FOR YOUR INFORMATION:

2016 Annual State Report	Approval Memorandum
2017 Retirement Seminar	Draft Agenda
KCG Recapture Statement	Recapture Summary/June, 2017

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Secretary Chairman

Any written public comments made 48 hours prior to the meeting regarding items discussed during the proceedings have been attached hereto.

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