

City of Miramar Firefighters' Retirement Plan

MINUTES OF MEETING

February 16, 2017

Chairman James Estep called the meeting to order at 9:00 A.M. in the Meeting Room of Fire Station 100 located at 2800 SW 184th Avenue, Miramar, FL. Those persons present were:

TRUSTEES PRESENT

James Estep, Chairman
Manuel Esparza, Secretary
Patricia Barry, Trustee

Cliff Ricketts, Advisory Comm
Leo Nunez, Advisory Comm (9:26)
Jason Swaidan, Advisory Comm (10:12)

TRUSTEES ABSENT

Susan Finn, Trustee
Ulises Carmona, Trustee

OTHERS PRESENT

Denise McNeill; Resource Center; Administrator
Bonni Jensen; Klausner, Kaufman, Jensen &
Levinson; Attorney
Don Dulaney; Dulaney & Co; Actuary
Greg McNeillie; Dahab & Associates;
Consultant
Heather Dailey, Michael Naftanial, Ian Thomas;
City of Miramar
Members of the Plan

PUBLIC COMMENTARY

James Estep invited those present to address the Board with public comments. There were no comments at this time.

MINUTES

The November and January minutes were presented for review. It was noted the January minutes included the same reference to Orlando Segarra as the November minutes. The minutes will be adjusted accordingly. The minutes were tabled to the next meeting.

DISBURSEMENTS

Denise McNeill presented the disbursement report and financial statements for review.

- Manuel Esparza made a motion to approve the disbursements as presented. The motion received a second by Patricia Barry and was approved by the Trustees 3-0.

INVESTMENT MANAGER REPORT – INTERCONTINENTAL

Peter Hapgood of Intercontinental appeared before the Board to present the December 31, 2016 report. Mr. Hapgood provided an update of the firm and then reported a 91.7% occupancy rate with 116 properties noting the lowest occupancy rate during the recession was in the high 80%. He reported leverage is currently 42.4% and although he would like to see the leverage slightly lower, the portfolio allows up to a max of 50%. Mr. Hapgood explained the Fund is Core and Core Plus with four ground-up projects in play. He reported all properties are appraised quarterly by an external party and the same is done with the debt as it is also submitted to a third party to determine/review the debt for the portfolio. He reviewed the investment overview noting the Plan's return has been 11.16% since inception. He went on to review the income components of the portfolio noting the 25 basis point increase to the interest rate had a positive impact on the portfolio. He reported their debt is 10 year fixed rate. Mr. Hapgood then reviewed the portfolio diversification explaining with mobile office trending and remote employment growth, they need to be cautious and aware of the office space environment. He explained their goal is typically not to have only one tenant in each building and they prefer grocery or pharmacy anchors (no big box stores). He explained as core space is close to a max, they look for potential hot spots and

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apartment buildings just outside of the core area. Mr. Hapgood reviewed specific holdings explaining they plan to sell nine properties in 2017. He advised the high returns of mid-teens should reduce back to the normal expected range of 6-8%. They expect to lower leverage and will use more cash as interest rates rise. Mr. Hapgood then reviewed the Fund's diversification and occupancy rate. He explained their property management side focused on renegotiating leases in the market downturn in an effort to keep space leased and the process has worked well. Mr. Hapgood responded to several questions from the Trustees. Mr. Hapgood departed the meeting.

INVESTMENT MANAGER REPORT – PRINCIPAL REAL ESTATE

Paul Stover of Principal Real Estate appeared before the Board to present the December 31, 2016 report. Mr. Stover provided an update of the firm noting there have been no changes to the structure or ownership. He reported they had inbound investment queues for a time; however currently there are no inbound or outbound queues. He reviewed the account profile noting they have 21.3% leverage with a 94.6% occupancy rate. He explained they have a large allocation in Florida and he reviewed the diversification of the Fund. Mr. Stover then explained retail has been the worst performer in the portfolio in comparison to office and industrial. He reported they look for grocery and pharmacy staple properties, are cautious with multi-family and consider student housing that they consider is in a prime location. Mr. Stover explained the head-winds hurting retail are helping industrial with online purchases coming straight from industrial warehouses. He then reviewed specific holdings in detail. He addressed the leverage noting the debt maturities are staggered; 70% are fixed and 30% are floating (typically on new construction). Mr. Stover explained returns have been strong; however he expects them to moderate back to the mid to high single digits. Mr. Stover responded to several questions from the Trustees. Mr. Stover departed the meeting.

AUDITED FINANCIAL STATEMENT – KABAT, SCHERTZER, DE LA TORRE & TARABOULOS

Eric Leventhal of Kabat, Schertzer, De La Torre and Taraboulos appeared before the Board to present the 2016 Audited Financial Statement. Since the Board had just heard from investment managers, he reported their long term real rates of return are good and referred the Trustees to the page in the audit representing the long term expected returns. Mr. Leventhal reported a clean audit opinion; an unmodified report which is a good report for a pension plan to receive. He reported the total net position increased from \$104M to 117M, mostly due to investments. He reviewed the expenses noting the majority of the increase related to the City's legal cost related to the tax matter; otherwise administrative costs would have been relatively the same as the prior year. He reviewed the liabilities with the Trustees. Mr. Leventhal reported there is \$51,875 of deferred revenue explaining the City contributed \$51,875 more than required and the City may use the funds toward the 2017 fiscal year. He explained there were no internal control matters found in the audit. At the request of Mrs. Jensen, Mr. Leventhal reported on the new GASB 72 rules explaining it relates to expanded disclosure of fair value of investments. He explained the type of real estate this Plan has is measured at NAV; therefore it is not included in the fair value hierarchy. He will look into where the timber was allocated as it currently appears it was allocated to mutual funds; however it should be with the NAV as with the real estate. He explained that although that allocation may be different, and it may be a different disclosure note, the audited numbers are still solid. Mr. McNeillie explained the investment information was forwarded to the actuary and he will be sure to forward directly to the auditor as well. He will work with the auditor to provide the final information needed to finalize the audit and he confirmed the total of assets will not change, only the related footnote of the asset description. Discussion followed regarding the reference to level three investments under the new reporting. Mr. Thomas explained the City's auditor may have additional questions.

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- *Manuel Esparza made a motion to approve the 2016 Audited Financial Statement as amended. The motion received a second by Patricia Barry and was approved by the Trustees 3-0.*

Eric Leventhal departed the meeting.

INVESTMENT CONSULTANT REPORT

Greg McNeillie of Dahab & Associates appeared before the Board to present the quarterly report for the period ending December 31, 2016. Mr. McNeillie reported since the election, the market was up 2.8% through the end of December and is up almost 9% current year to date; however international and emerging markets have not done well in the recent period. He reported negative rates in the fixed income while the real estate alternative has been good. He reported overall their performance was relatively good even though it was not a good year for active managers. Mr. McNeillie noted Polen was reflecting good numbers fiscal year to date. He reviewed the asset allocation and reviewed the recent portfolio changes. He reported they are overweight in small cap and mid cap and they may want to adjust the under and overweight if the market is coming out of the recession. He reported the Plan ended the quarter up 1.8% (net of fees); ranking the Plan in the top 7th percentile for the quarter. He further reported quarterly returns of the following: large cap core was up 3.8%, large cap growth was down -0.6%, mid cap was up 4.1%; smid cap was up 5.7%, small cap core was up 11.5% and 8.3%, international was down -0.7%, emerging markets was down -1.8% and core fixed was down -2.4%. Mr. McNeillie then reviewed the policy targets explaining the tactical leeway allows the Plan to determine when adjustments are necessary; while the maximum and minimums will force the Plan to adjust. He explained the report did not include the final Molpus information as it did not become available until after the report had been sent. Mr. McNeillie noted the Plans allocation was the reason for the high ranking as they are currently overweight in the right places. Lengthy discussion followed regarding the Northern Trust indexed funds, related fees and the overall asset allocation.

- *Manuel Esparza made a motion to move \$3M from the Northern Trust large cap core to the Invesco large cap value. The motion received a second by Patricia Barry and was approved by the Trustees 3-0.*

Discussion followed regarding the fees. Mr. McNeillie explained he was pretty tough with managers going into the relationship when the managers were hired. Mrs. Jensen explained she feels they should ask the active managers for a fee reduction anyway since most are under performing the indexes. Mr. Estep explained it is not that the Board is unhappy; they are just requesting a fee adjustment. Mr. McNeillie will continue to reach out to the managers regarding the fees. Mrs. Jensen reported some Plans had favored nation's clauses and the manager had reduced their fees in one plan and not with the client who had the clause. Mr. Estep explained it is about due diligence.

ATTORNEY REPORT

SECURITIES LITIGATION POLICY: Mrs. Jensen explained at the prior meeting, they had discussed the need for a Securities Litigation Policy. She reviewed the policy in detail with the Board explaining it lays out the roles of the parties. Discussion followed regarding the process. Mrs. Jensen explained she has seen presentation from class action attorneys reporting Billions of dollars left unclaimed. Mrs. Jensen explained derivative actions and potential lead plaintiff requests. She explained class action attorneys work on a contingency and they cover the cost of the pension plan's attorney as well as any other cost related to the class action to ensure no cost to the plan. Mrs. McNeill explained they have a couple of clients who have been involved in class action cases and she noted the labor and items needed from the administrator. She explained

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that the Resource Centers have not been charging additional fees for the needed services; however they plan to do so going forward.

- Manuel Esparza made a motion to approve the litigation policy as presented. The motion received a second by Patricia Barry and was approved by the Trustees 3-0.

Discussion followed regarding portfolio monitoring. Mrs. Jensen explained this plan has less access for class action due to the high amount of indexed assets.

LEGAL UPDATES: Mrs. Jensen addressed an invoice the Plan received from Gray Robinson. She explained her firm had requested copies of information regarding the tax matter for another client. Rick Burke at Gray Robinson had asked the City attorney for approval to provide the response. She noted in so doing, Gray Robinson charged \$1700 to this Plan for the action. She explained she was not aware a request for the backup information would not be accessible without a charge. She will work on having the charge removed from the Plan accordingly.

SUMMARY PLAN DESCRIPTION: Mrs. Jensen addressed changes to the Summary Plan Description (SPD). The document had been updated with the post retirement supplement change and the removal of Herndon. Discussion followed regarding electronic distribution to members. James Estep will provide a contact list to the Administrator. The document is to be sent via email with a return receipt notice.

- Manuel Esparza made a motion to approve the revised Summary Plan Description as presented. The motion received a second by Patricia Barry and was approved by the Trustees 3-0.

SB158 – FIREFIGHTER CANCER PRESUMPTION: Mrs. Jensen explained this Bill is still pending.

SB632: Mr. Jensen reported SB632 had been filed a couple of weeks ago. She explained if it passes, the Plan will be required to list 30 year language regarding their rate of return.

James Estep requested the DROP distribution forms be updated to match the Share account forms.

ACTUARY REPORT

Don Dulaney apologized for missing the last meeting as he had the wrong date on his schedule. He explained the needed information for the SPD update had been provided to the attorney.

GASB 67 REPORT: Mr. Dulaney explained the funding method change effective October 1, 2015 caused the current year cost increase. Mr. Dulaney presented the GASB 67 Report and reviewed it in detail with the Board. He explained this new report is needed by the City. Discussion followed regarding the mortality table and it was noted the State has already made a slight adjustment to the table. Don will run the numbers from both mortality tables as he prepares the valuation report to see which will be the least expensive for the Plan. He noted the mortality table change is expected to increase the Plan's liability slightly. He reported the Plan fiduciary net position as a percentage of the total pension liability is about the same (76%) from 2015 to 2016.

- Manuel Esparza made a motion to approve the GASB 67 report as presented. The motion received a second by Patricia Barry and was approved by the Trustees 3-0.

Mr. Dulaney explained the report had already been sent to the City.

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CALCULATION OF 415 LIMITS: Bonni Jensen explained the Internal Revenue Code (IRC) 415 limits have always been an issue and the Plan previously had to look to 415C for the limitation on the contributions. She explained there is a limit to the funds a member can receive from the Plan. She explained the limits have always applied to the defined benefit pension payments and a retiree's pension benefit must be capped at the \$215,000 IRC 415 limit. She explained the issue relates to DROP distributions. The Plan must annuitize the DROP amount and make sure it does not reach over the \$215,000 annual limit. Mrs. Jensen confirmed the DB and DC limits are separate. Mr. Dulaney explained the limits do not lower with age for DB plans. Mr. Dulaney will be doing reviews for the Pension Plan and will report back to the Board. He explained the COLA is an issue and could cause members to reach the DC limit. He addressed another pension plan currently experiencing the issue and he explained there is no definition of how to address the matter. Mrs. McNeill explained the administrator has used a process from another Pension Plan for consideration in the IRC 415 limit review. Mr. Dulaney will review the details as to how and if they need to re-evaluate and he will do a sample for the Board. Heather Dailey inquired into a beneficiary scenario and Mr. Dulaney confirmed it would not impact a beneficiary receiving a death benefit and a pension benefit from the same plan since the matter relates to "same job" payments.

ADMINISTRATOR REPORT

BENEFIT APPROVALS: Mrs. McNeill reviewed a listing of permissive service purchases for benefit approval. Heather Dailey requested the total calculated cost be added to the report. Approval of the permissive service purchases was tabled to the next meeting. Discussion followed regarding a couple members who had submitted a first request, then submitted a second request without being clear that the second request was "in addition to" the first one. Mr. Dulaney explained the cost changes for the second calculation depending upon it being "in addition to" the first calculation. It was noted a couple of the members had calculations that needed to be redone as the second request was intended to be "in addition to" and not "in place of" the first calculation. Going forward, with second requests, it is important to know when the request is combined. Mrs. McNeill expressed concern of tracking down the road if a member requests to purchase additional service at a later date. Mrs. McNeill and Mr. Dulaney confirmed they are both keeping a tracking list on file, ongoing for the calculations, which they hope will alleviate future confusion.

PERMISSIVE SERVICE ADJUSTMENT – BOYLE: Mrs. McNeill presented a situation regarding the secondary calculation being "in addition to" the first calculation. This was one of the members who took advantage of the offer early in the process and he had added the totals from his first calculation and the second calculation together, then had the funds rolled over from his 457 account. The members' calculation had to be recalculated since the second was intended to be "in addition to". When the revised cost was determined, the member advised it was too high and he did not have the resources to pay the additional cost. The problem is that his 457 rollover funds received ended up being "overpaid: to the Plan. Lengthy discussion followed regarding the matter.

- Manuel Esparza made a motion to reject the \$10,123 due to the confusion on the calculation process and repay the \$10,123 back to the 457 vendor. The motion received a second by Patricia Barry and was approved by the Trustees 3-0.

James Estep addressed a second calculation done for Francesca Rogers. He requested the Board approve providing the second calculation at no cost to the member due to the member's circumstances as the example table used for the group did not come close to representing Rogers' situation and therefore the table was not able to provide a reasonable estimate of the cost.

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- *Manuel Esparza made a motion to waive the member's calculation fee of \$150 for the second calculation due to the lack of a relative estimate. The motion received a second by Patricia Barry and was approved by the Trustees 3-0.*

OTHER REPORTS

It was noted the portfolio monitoring reports were included in the Trustee packets.

DISABILITY APPLICATION UPDATE

Mrs. McNeill reported a file had been received from Eric Stettin, the City's Workers Compensation attorney; however the needed 'non-release to work' had not been included. After further discussion with Mr. Stettin, he advised that he will request the HR and EAP records be forwarded from the City. Mrs. Jensen explained the Plan's HIPAA release contains the necessary release allowance. She explained the Plan cannot process the disability application without evidence. Lengthy discussion followed regarding the process. Mrs. Jensen explained the Board is bending over backwards to help the member since it appears the member is unable to address what needs to be provided; however she reminded the Board it is the members responsibility to provide the documentation.

OLD BUSINESS

PAYROLL DATA: Heather Dailey introduced the City's new Benefits Manager, Michael Naftanial. The Trustees welcomed Mr. Naftanial and James Estep provided a brief history of the payroll data matter. Mr. Estep explained Heather Dailey has been extremely helpful in trying to resolve various issues for the board with the City. He expressed concern that the City seems to lack checks and balances in the payroll system process and he reviewed examples of the matter. Mrs. Jensen explained changes that should be global will sometimes be isolated to one member. Heather Dailey explained they have made much progress toward improvement regarding payroll. It was agreed the administrator will remove the payroll data topic from the next agenda.

NEW BUSINESS

Bonni Jensen informed the Trustees they should have received an invitation to the KKJL annual conference being held March 20 through the 23rd and registration is open online.

Mr. Estep reported he had to order one more iPad for the newest Advisory Board member appointed to the City seat.

ADJOURNMENT

The Trustees acknowledged their next meeting date was set for April 6, 2017.

- *Manny Esparza made a motion to adjourn the meeting at 1:00 PM. The motion received a second by Patricia Barry and was approved by the Trustees 3-0.*

Respectfully submitted,

Manuel Esparza, Secretary