

**MINUTES
REGULAR PENSION BOARD MEETING
CITY OF HOLLYWOOD EMPLOYEES' RETIREMENT FUND
FRIDAY, FEBRUARY 28, 2014**

1. CALL TO ORDER

Board Members present: Chair Phyllis Shaw, Vice-Chair Jeffrey Greene (arrived at 11:00 a.m.), Mr. Charles Howell (via telephone; departed at 10:30 a.m.), Mr. Ralph Dierks, Mr. Patrick Gill, Mr. Matthew Lalla and Mr. Richard Templeton. Also present: Pension Coordinator, Ms. Lisa Castronovo; Board Secretary, Ms. Lisa Powell; and Plan Attorney, Mr. James Linn.

2. ROLL CALL AND PLEDGE OF ALLEGIANCE

3. CONSENT AGENDA

- a. January 23, 2014 Regular Meeting Minutes
- b. Ratification of Distributions (Contributions and DROP) and Plan Expenses
- c. Approval/Ratification of New Retirement/DROP/Vested/Death Annuities

MOTION made by Mr. Dierks, seconded by Mr. Lalla, to approve Consent Agenda Items 3.a.-c. In a voice vote by the members present, all members voted in favor. Motion passed 6-0.

4. TREASURER'S REPORT (Matthew Lalla)

Mr. Lalla reported that the Fund's investments had increased from \$255.8 million on October 1, 2013 to approximately \$279.7 million on February 26, 2014, which was an increase of \$23.9 million/9.4%.

MOTION made by Mr. Dierks, seconded by Mr. Templeton, to approve the Treasurer's Report. In a voice vote by the members present, all members voted in favor. Motion passed 6-0.

5. INVESTMENT ISSUES (Keith Reynolds, Segal Rogerscasey)

- a. Wells Fargo Bank – Karl Hutchinson
- b. Flash Performance Review

Mr. Reynolds briefly reviewed the quarterly performance report for the quarter ended December 31, 2013, noting that the Fund's return for the calendar year ended December 31, 2013 was 19.7%. Mr. Reynolds remarked that the Board had made some very good decisions in regards to its selection of three new money managers in the past year and its decision to convert TSW from small cap to smid cap management. Mr. Reynolds finished by noting that the Fund had a 12.2% return for the five (5) previous years which ranked very favorably among the Fund's peers.

Mr. Reynolds presented the Flash Performance report for January 2014 noting that the Fund's assets were \$276 million as of January 31, 2014 and that its asset versus target allocation was right on track. Mr. Reynolds stated that even though January 2014 was a down month, the Fund had done well in some part due to the down side protection that was provided by the investments with Frontier Capital Management and TSW. Mr. Reynolds

concluded by stating the Fund was up 4.6% from October 2013 – January 2014 versus the benchmark being up only 3.5%.

Mr. Reynolds addressed the release time of Principal's quarterly reports noting that Principal does not release the pertinent data until forty-five (45) days after quarter end. Mr. Reynolds stated that between himself, Mr. Hutchinson of Wells Fargo, and Ms. Castronovo, the release turn-around time would be discussed with Principal to see if it could be improved.

Mr. Reynolds presented Karl Hutchinson from Wells Fargo Bank, the Fund's custodian. Mr. Hutchinson presented a reduced fee structure for the Board's consideration. The Board accepted the new fee structure and will have an updated fee agreement executed as soon as possible.

8. Public Comments (taken out of order)

Comments were heard from the following:

Ronald Bolton – 1150 NW 71st Avenue, Plantation, FL
Bette Gibson – 4300 SW 73rd Terrace, Davie, FL
Andre Brown – 2316 Mayo Street, Hollywood, FL
Greg Turek – 10154 SW 52nd Street, Cooper City, FL
Irene Lathrop – 818 NW 10th Avenue, Dania Beach, FL
Robert Strauss – 2638 Jackson Street, Hollywood, FL
Maurice Bush – 6448 Johnson Street, Hollywood, FL

6. LEGAL ISSUES (James Linn)

- a. IRC Section 415 and DROP Account Discussion
- b. Supplemental Benefit ("13th Check") Discussion
- c. Non-Duty Disability Retiree

Mr. Linn first discussed the supplemental benefit issue. Mr. Linn reminded the Board that the matter of supplemental benefits involves an interpretation of Florida State Statute that governs all public pension plans. Florida Statute contains a provision that states that additional benefits that are paid out based on the investment experience of the fund cannot be based on just one year's experience but rather on the net experience of the plan going back to the time the supplemental benefit provision was adopted. Mr. Linn continued that it was both his opinion and that of the Fund's actuary that a supplemental benefit could not be paid for the fiscal year ended September 30, 2012 because the net experience since that date was negative \$100 million. Therefore, one year's worth of investment gains did not negate the accumulated losses of over \$100 million. Based on the foregoing, Mr. Linn provided the Board with his opinion that based on Florida State law, a supplemental benefit could not be paid for fiscal year end September 30, 2012.

Mr. Linn explained that the City's police and fire funds are covered by the same Florida Statute that covers the Retirement Fund, have similar supplemental benefit language in the City's ordinance and are more poorly funded than the Retirement Fund, yet paid a supplemental benefit for fiscal year end September 30, 2012. Both Boards stated the extra benefit was not being paid from excess investment earnings but rather was added to each fund's respective unfunded accrued liabilities (which in turn increases the City's contribution to both funds for the next thirty (30) years).

After discovering the method of funding used, the City wrote letters to the State objecting to the method of funding employed by both funds and stating that it did not approve such funding method. The State responded to the City's objection by directing both police and fire boards to produce documentation showing that the City approved the method of funding. Mr. Linn concluded by noting the State had not yet responded with a decision if the form of funding utilized by both police and fire was allowed, but that he expected a response in the next few weeks especially since the police board's attorney had provided information to the State in support of police's payment of the supplemental benefit.

The Board discussed payment of a supplemental benefit. Mr. Templeton stated that he was in favor of paying the supplemental benefit considering both of the City's other funds paid it out. Mr. Linn responded that the Board could vote to do pay it but if it was later determined that such payment was in violation of State law, then the fund would have to get the money back from the retirees just as the police and fire groups would have to do. Mr. Dierks stated that the supplemental benefit was, in his opinion, an existing benefit, not an additional benefit, and as such should be paid. Mr. Gill voiced his opinion that the Board should wait on its decision to authorize payment of a supplemental benefit until the State passed down its direction to the police and fire boards because he did not want to have to get the money back from each retiree if the payment was not ultimately allowed. Mr. Lalla and Mr. Greene agreed with Mr. Gill.

Public comments were made by Ron Bolton, Andre Brown, Maurice Bush, Robert Strauss, and Bette Gibson.

Mr. Dierks asked Mr. Linn if the Board requested an opinion from the State regarding its situation specifically or if they were relying on the State's response on police and fire. Mr. Linn responded that the Board had not requested an opinion from the State. Mr. Greene added that it was his understanding that the Board did not request a direct opinion from the State because the three funds are so similar so whatever the State directs for police and/or fire would apply to the Fund.

Mr. Linn discussed how a retiree's maximum allowable benefit is affected by application of IRC Section 415 when s/he has a DROP account. Mr. Linn noted that the language of the Plan states that DROP accounts will earn the same net rate of return as the Fund's investments. Mr. Linn then reminded the Board of the policy they adopted in November 2008 that applied a 0% floor to DROP earnings so that no DROP participant would see a loss in their DROP account due to a downturn in the market. The City and the union entered a Letter of Understanding in February 2011 which reflected the 2008 policy adopted by the Board. Mr. Linn stated that the Plan language had not changed but the Board adopted the policy, the City and union entered their Letter of Understanding, and DROP accounts since late 2008 were calculated in accordance with the adopted policy and the 2011 Letter of Understanding.

Mr. Jeffrey Ambrose from Gabriel, Roeder, Smith & Company provided an overview of IRC Section 415 calculations. Mr. Amrose explained that if DROP accounts were credited with the same net rate of return credited to the Fund, then the DROP account could be viewed as a defined contribution plan and then there would no need to factor the DROP account balance into the determination of the final IRC Section 415 limit. However, if DROP accounts were credited with a fixed rate of return, then the DROP account balance must be factored into the IRC Section 415 limit. Mr. Amrose explained that the Fund was a hybrid of the two approaches since it allowed positive earnings to be posted but also employed a 0% floor. Mr. Linn opined that because the DROP accounts were not credited with negative earnings, then it took the Fund out of the IRC Section 415 exemption allowed if the DROP accounts were credited with all of the Fund's investment earnings, both positive and negative. Mr. Linn concluded that because he could not find any Revenue Rulings or case law on this particular issue, he urged the Board to seek an IRS private letter ruling to make sure that his reading of the Code was correct.

Mr. Gill noted the reason the February 2011 Letter of Understanding was entered by the City and the union was because representatives of the union and its attorney came before the Board and argued that it was never intended for negative earnings to negatively impact members' DROP account balances. The Letter of Understanding was executed after information was brought to the Board that the 0% floor was what was intended in negotiations.

Public comment was heard from Ron Bolton.

Mr. Templeton stated that the union negotiated position was never turned over to the Board attorney or actuary to obtain their guidance.

MOTION made by Mr. Lalla, seconded by Vice-Chair Greene, to direct Board Attorney James Linn to develop a proposal for a tax attorney, who will, in conjunction with Mr. Linn, request an IRS private letter ruling regarding the application of IRC Section 415 limits when considering maximum benefits for a member who has a DROP account that had a 0% interest floor. In a voice vote by the members present, all members voted in favor.

Public comments were heard from Ron Bolton and Robert Strauss.

Motion passed 6-0.

The Board recessed at 11:50 a.m. and reconvened at 12:04 p.m.

Mr. Linn provided an update on recent correspondence between himself and non-duty disability Andy Dowell's attorney regarding the Board's denial of Mr. Dowell's application for a duty disability after a non-duty disability had been granted.

7. ADMINISTRATIVE ISSUES

a. IRC Section 415 Calculations

Ms. Castronovo reported that in early 2013 the Fund paid for an IRC Section 415 maximum benefit calculation for a DROP participant who was affected by the limits as in effect at the time. The DROP participant contacted Ms. Castronovo in January 2014 to recalculate the IRC Section 415 maximum benefit for two different retirement dates due to the passage of Ordinance O-2013-25 in December 2013. Ms. Castronovo requested Board approval for the Fund to pay for the new IRC Section 415 calculations, which would be \$450 for one calculation or \$700 for both calculations.

MOTION made by Mr. Dierks, seconded by Mr. Templeton, to not allow the Fund to pay for the additional IRC Section 415 calculations. In a voice vote by members present, the motion passed 5-1 (Mr. Lalla voted in opposition).

b. Retiree Request to Change Form of Benefit Option

Ms. Castronovo reported that she had recently received a call from retiree Howard Weinstein who wanted to know what his wife would receive after he died. Ms. Castronovo explained that after she explained to Mr. Weinstein the specifics of the benefit he selected - Twenty Year Certain & Life benefit with guaranteed benefit payment through March 31, 2015 – he voiced his concern about the benefit because he said he believed he had selected a Joint & Survivor benefit. Mr. Weinstein told Ms. Castronovo that he never would have selected a benefit that did not protect his wife after his death. Mr. Weinstein stated further that the various benefit options were not clearly explained to him when he retired in 1995 and that he never received any type of written explanation of the various optional forms of benefit payments.

After discussion, the Board took no action on Mr. Weinstein's request to change the optional form of benefit he selected.

c. Follow-up regarding Grant & Eisenhofer, securities litigation monitoring firm

Ms. Castronovo reported on her recent meeting with Stephanie Saccaro and Marc Weinberg of Grant & Eisenhofer, one of the Fund's securities litigation monitoring firms. Ms. Castronovo noted that the Agenda backup included updated information regarding Grant & Eisenhofer and that Ms. Saccaro would like to meet the Board at one of its upcoming meetings.

Mr. Dierks asked Ms. Castronovo if she had spoken with Marisa DeMato, who recently left Grant & Eisenhofer, to find out if Ms. DeMato was representing another securities litigation monitoring firm with which the Board might contract. Ms. Castronovo responded that she had not but that she would do so and then provide an update at the March meeting.

9. TRUSTEE REPORTS, QUESTIONS AND COMMENTS

Mr. Lalla expressed his concern regarding the conduct of the present meeting as it related to the public comments, participation, and decorum. Mr. Lalla continued that he would like to see the Board adopt decorum rules similar to those in place for the City Commission.

MOTION made by Mr. Lalla, seconded by Vice-Chair Greene, to amend the Board's By-laws to incorporate standard decorum rules similar to those adopted by the City of Hollywood's City Commission. In a voice vote by the members present, all members voted in favor. Motion passed 6-0.

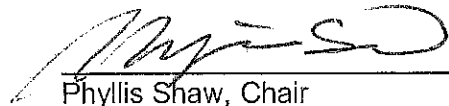
10. PENSION COORDINATOR'S REPORT (Lisa Castronovo)

Ms. Castronovo reminded the Board that when the City and Union entered into a Letter of Understanding ("LOU") in 2011 that addressed the minimum floor for DROP accounts, the LOU contained a provision for a payout of \$24,000 to approximately 20-30 DROP participants affected by negative earnings in the fiscal year ending 2008. Mr. Templeton asked if the Board had authority to reverse a decision made by the bargaining committee and that the decision outlined in the LOU was made by two parties and the Board did not have the authority to change such decision.

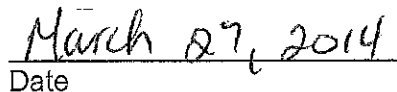
Ms. Castronovo informed the Board that she had provided information regarding the NCPERS 2014 Annual Conference, being held in Chicago, April 26, 2014 through May 1, 2014 and that if any Board member wanted to attend, to let her know.

11. ADJOURNMENT

MOTION made by Vice-Chair Greene, seconded by Mr. Dierks, to adjourn the meeting. In a voice vote by the members present, motion passed 6-0. Meeting adjourned at 1:04 p.m.



Phyllis Shaw, Chair



Date