

**CITY OF WEST MELBOURNE
POLICE OFFICERS' RETIREMENT BOARD
JANUARY 25, 2023**

The West Melbourne Police Officers' Retirement Board held its quarterly meeting on Wednesday, January 25, 2023 in the City Council Chamber, 2285 Minton Road, West Melbourne, Florida.

MEMBERS PRESENT: Chairman Scott Morgan (resident member)
Secretary Jennifer Curran (fifth member)
Pat Bentley (resident member)*
James Parsons (police member)
Graig Erenstoft (police member)

CONSULTANTS: Pedro Herrera, Board Attorney – *Sugarman, Susskind...**
Kerry Richardville, Investment Consultant – *AndCo*
Karan Rounsavall, Plan Administrator
Pete Strong, Actuary - *GRS Consulting*
Peter Tramont, Actuary - *GRS Consulting*
Charlene Lehmann, Administrative Assistant

CITY STAFF: Candice Blake, Finance Director

Chairman Morgan called the meeting to order at 10:00 a.m. A quorum was in attendance. *Virtual presence – attended meeting via communications media technology (Zoom platform hosted by the City of West Melbourne).

APPROVAL OF MINUTES

Chairman Morgan noted a correction on page 2 regarding motion to identify source of funds for DROP payout, to-wit: *Based on advice from the investment consultant, Member Curran moved to liquidate \$125,000 from domestic equities and \$125,000 from ~~domestic~~ global fixed income to meet this obligation.*

Member Erenstoft moved to approve minutes of quarterly meeting October 26, 2022 as corrected. Member Curran seconded the motion; 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 2022/2023 (October 1, 2022 through December 31, 2022) in the amount of \$26,053.62 and to acknowledge receipts to the plan in the amount of \$181,919.27. (Reference Plan Administrator's memo dated January 6, 2023 for detail.) Member Erenstoft seconded the motion which carried on an all-yes vote.

Total disbursements during the quarter were \$473,415.63 which included monthly benefit payments to retirees in the amount of \$202,224.16, DROP payout (\$219,831.82), refund of employee contributions (\$12,000.00), share account distributions (\$13,306.03) and expenses noted above.

CONSULTANT REPORTS

A. Pete Strong and Peter Tramont – GRS Consulting (Actuary)

- Presentation of actuarial valuation report as of October 1, 2022
- Declare expected annual rate of investment return for assets of West Melbourne Police Officers' Retirement Plan

Actuary Pete Strong presented the October 1, 2022 Actuarial Valuation Report for the West Melbourne Police Officers' Retirement Plan. Being the first year that GRS had prepared the report, there was lots of extra work to reconcile with the prior year report prepared by Foster & Foster. Despite a poor investment year, the plan continued to be in excellent shape and the required city contribution decreased by nearly two percent. The valuation established the annual contributions applicable to the Retirement Plan for the fiscal year ending September 30, 2024. The report also included GASB 67/68 disclosure information as of September 30, 2022.

The city's minimum required contribution for the ensuing fiscal year was 10.26 percent of non-DROP pensionable payroll. Expressed as a dollar amount, the minimum contribution was \$275,802. This percentage/amount did not include estimated State contributions of \$197,115 (representing another 7.33 percent of covered payroll).

There was a net actuarial experience gain for the year based on actuarial assumptions. Sources of favorable actuarial gain included demographic experience among active members (e.g. higher turnover, mortality, and lower average salary increases). Demographic gains were partially offset by investment losses. The investment return (based on the smoothed asset value over a five-year period) was 5.3 percent which was less than the 6.65 percent assumed rate of return.

Mr. Strong also mentioned that \$15,000 of state monies was used to fund individual share accounts for plan members pursuant to the plan document.

As of this valuation, there was no unfunded actuarial accrued liability (UAAL). The Plan's funded status was 100.1 percent (i.e., actuarial value of assets as a percentage of total actuarial accrued liability).

Given the plan's excellent funded status, Mr. Strong recommended that the retirement board consider a "fresh start" for unfunded liability and a 20-year amortization of experience gains and losses. Such actions would reduce the city's contribution rate. Another recommendation was to establish a "credit balance." This was essentially the use of prepayments to establish a credit balance account which would be used to offset future year required contributions. Alternatively, the city could continue its practice of using overpayments to reduce the unfunded liability.

Chairman Morgan and Member Bentley did not support reducing the city's contribution rate at this time stressing that the plan did not have a positive cash flow. Additionally, the funded percentage would reduce in the following year due to the carryforward of investment losses.

Discussion turned to the expected rate of return. The current assumed rate of investment return was 6.65 percent which was reasonable. Member Bentley favored further lowering the assumed rate of return to an even more conservative percentage. He understood that a lower rate of return would reduce the plan's funded status.

Member Bentley moved to reduce the assumed rate of investment return from 6.65 percent to 6.45 percent, to proceed with a "fresh start" for the unfunded liability along with a 20-year amortization period, both as recommended by the actuary. His motion included direction to "redo" the 2022 valuation with these changes. Member Curran seconded the motion.

Kerry Richardville (AndCo investment consultant) commented that an assumed rate of return of 6.45 percent was responsible and defensible. Capital market projections recently moved higher.

Actuary Strong advised that these changes would increase the city's contribution rate. He further estimated that it would increase unfunded liability by \$50,000 and reduce the funded ratio to roughly 96 percent. GRS's cost to redo the 2022 valuation was \$1,500.

The motion carried. It was clarified that the board's intent was to approve the revised valuation upon receipt thereof. GRS would file the valuation with the State Division of Retirement.

Attorney Herrera recommended that the board put forth a separate motion to declare the expected rate of return. Accordingly, Member Curran moved to approve the annual valuation (as revised) and to declare a 6.45 percent expected rate of return on investments going forward (based on advice of plan consultants). Member Bentley seconded the motion which carried unanimously. The plan administrator would prepare the required correspondence to the Division of Retirement advising of the expected annual rate of return.

(Note: Upon receipt of the revised valuation, the city's contribution increased to 12.66 percent and the funded status decreased to 97.5 percent.)

- Request for board interpretation of plan document as it relates to reallocation of share plan forfeitures for active DROP participants

Section 34-98 of the plan document was silent regarding reallocation of share plan forfeitures for DROP participants. GRS inquired into the proper method for handling these situations. In past years, DROP participants did not receive any reallocation of share plan forfeitures.

Chairman Morgan moved to maintain the past practice wherein DROP participants did not receive any reallocation of share plan forfeitures. Member Bentley seconded the motion; it carried on an all-yes vote.

- Revision to agreement with GRS Consulting to address share plan accounting and annual share plan statements

It was recently discovered that the professional services agreement for actuarial services awarded to GRS Consulting in July 2022 did not include a line item for share plan accounting, etc. In fact, this item was omitted from the original request for proposal. Over the past two months, GRS spent numerous hours assisting with preparation of the share plan spreadsheet needed for the valuation.

Chairman Morgan accepted responsibility for this inadvertent omission on the part of the retirement plan. In years past, city staff assisted the pension board in the preparation of the share plan spreadsheet as well as the state annual report. In fact, the retirement board took pride in keeping its administrative costs down and the city's involvement was

instrumental in this accomplishment. However, several city staff members recently changed as well as the plan's professional actuary. He asked trustees how they wanted to handle these essential tasks going forward.

Mr. Strong of GRS offered to handle share plan reconciliation, share plan statements for participants, and preparation of the state annual report for a \$5,000 fee.

Member Parsons moved to amend the professional services agreement with GRS Consulting to include share plan reconciliation and annual report for the stated \$5,000 fee. Member Curran seconded the motion.

Member Bentley wondered why city staff was changing its stand on assisting with these tasks. He felt that the city was "wiping its hands" of this responsibility. Perhaps someone could have a conversation with the new administration to be sure they understood that these costs were eventually passed on to the city.

The motion carried unanimously.

B. Kerry Richardville – AndCo Consulting (Investment Consultant)

- Performance Report for quarter ended December 31, 2022

Mrs. Richardville presented the investment performance report and economic commentary for the quarter ended December 31, 2022. She reported that equity markets took a nice bounce in the quarter with all capitalizations posting positive gains. While there were still concerns about inflation, it had come down a bit since its peak during the summer of 2022. Bond market performance was also broadly positive due to lower inflation and lower interest rate volatility. Real estate investments were leveling off a bit. All asset classes remained within their target ranges; there was no recommendation for rebalancing at this time.

Total market value as of December 31, 2022 was \$18,897,759 up from \$18,068,230 for the previous quarter ended September 30, 2022. On a percentage basis, the composite portfolio was up 6.24 percent for the quarter (gross) ranking in the 11th percentile of public plans which slightly outperformed the fund policy. For the trailing 12 months, the fund was down -11.54 percent which ranked in the 13th percentile. Returns over longer time spreads remained in the top quartile. The portfolio was valued at \$19,312,000 as of the previous day's close.

The Retirement Board acknowledged receipt of the performance report as presented.

- International Equity – Value Manager Analysis

At its last quarterly meeting, trustees asked Mrs. Richardville to prepare an educational primer on international value-oriented equity managers as a potential enhancement to the portfolio. The board was in receipt of a handout on the topic which vetted four investment opportunities in this style.

Mrs. Richardville reviewed the funds in this asset class. She recommended the DFA International Value Fund (Dimensional Fund Advisors) which had a low management fee (0.29%) and paired well with the EuroPacific Growth Fund currently in the portfolio. If the retirement board wished to invest in this mutual fund, she recommended that 50 percent of the portfolio's exposure to international equity be in EuroPacific Growth and 50 percent in DFA International Value.

In accordance with the investment consultant's recommendation, Member Curran moved to proceed with the 50/50 allocation as outlined above. Member Erenstoff seconded the motion which carried unanimously.

The investment consultant and plan administrator would prepare an appropriate letter of instruction to Salem Trust Company (custodian) to direct the trade.

- Discussion related to investment opportunities in tangible/real assets

Mrs. Richardville responded to Member Bentley's inquiry at the last meeting about the feasibility of introducing real assets into the portfolio. Options included: (1) additional allocation to infrastructure; (2) commodities; and (3) timber, farmlands, and other real assets. Timber and farmland investments typically were held in closed-end private structures with high minimums and high fees. High minimums were the biggest challenge.

The board took no action on this item.

C. Pedro Herrera – Sugarman, Susskind, Braswell & Herrera (attorney)

Attorney Herrera had nothing to report on the legal front. There were no pre-filed bills affecting public pension plans.

D. Karan Rounsavall - Plan Administrator

- Acknowledge refund of member contributions for Sandra Jenkins (partially vested member) in the amount of \$12,000.00
- Acknowledge refund of member contributions for Joshua Perez-Lopez (non-vested member) in the amount of \$13,598.60
- Share account distributions for Charles Finsted in the amount of \$5,919.56 and Richard Wiley in the amount of \$7,386.47

Member Curran moved to acknowledge the above-stated distributions as set forth above. Member Erenstoff seconded the motion which carried unanimously.

OLD BUSINESS - None

NEW BUSINESS - None

PUBLIC COMMENT

Member Erenstoff suggested that future retirement board meetings be held in the police department training room. This would make technology set-up easier. Because access to the police training room was unrestricted, there was no concern about the location being open access to the public.

It was consensus of the retirement board to move its future meetings to the police training room.

ADJOURNMENT

The meeting adjourned at 12:12 p.m.