

**MINUTES OF THE LADY LAKE
POLICE PENSION BOARD MEETING
LADY LAKE, FLORIDA**

December 14, 2016

The Police Pension Board meeting was held in the Town Hall Commission Chambers at 409 Fennell Blvd., Lady Lake, Florida.

MEMBERS PRESENT: Chairperson/Member Captain Jason Brough; Member Captain Robert Tempesta; Member John Schmied; and Member Leonard Cieciek

MEMBER ABSENT: Member Pete Chiasson

TOWN STAFF PRESENT: Kris Kollgaard, Town Manager; Pam Winegardner, Finance Director; and Nancy Slaton, Deputy Town Clerk

ALSO IN ATTENDANCE: Kevin Stone of Stone & Gerken, P.A.; Brendon Vavrica of Bogdahn Consulting, LLC; Patrick Donlan of Foster & Foster; and Commissioner Tony Holden

A. Call to Order: Acting Chairperson/Member Captain Robert Tempesta called the meeting to order at 1:30 p.m. at the request of Chairperson/Member Captain Brough.

B. Public Comment: Acting Chairperson/Member Captain Tempesta asked if anyone in the audience had any comments. There were no comments.

C. New Business

**1. Approval of Minutes – Regular Meeting – September 14, 2016
– Special Meeting – October 19, 2016**

Upon a motion by Member Schmied and a second by Member Cieciek, the Board approved the meeting minutes of September 14, 2016, and October 19, 2016 as presented by a vote of 4-0.

2. Actuarial Report by Foster & Foster (Patrick Donlan)

Patrick Donlan of Foster & Foster passed out iPads to the Board members so that they could follow his presentation. He reviewed the summary of the report beginning on page five; stating that the Town's total required contribution is the same as the last report, namely 24.0%. It was noted that the state contribution is frozen at \$97,097 and the Town has a prepaid contribution of \$47,312.79 available to offset the current year's funding requirements.

Mr. Donlan reviewed page 24 of the report regarding actuarial asset valuation, noting that the rolling four-year average return of 6.83% was used rather than the one-year return. He pointed out that the current year's rate of return was 9.20%; higher than the assumption rate of 7.75% for the current year. The four-year average of 6.83% resulted in an actuarial loss of -\$60,262.33.

Mr. Donlan reviewed page 29 regarding valuation participant reconciliation. He noted that three people terminated non-vested (+10% termination rate) during the year which resulted in an actuarial gain because although they received a refund of their contributions, the Town and state contributions remained in the plan fund.

Mr. Donlan reviewed the statistical data on page 27, noting that the average entry age of new hires of police officers this year was down, resulting in a lower normal cost, which is good for the plan.

Mr. Donlan reviewed the reconciliation of the Town's contributions for FY end 9/30/16, stating that the Town has been contributing more than they need to lately. The report shows the total required contribution rate is 23.4%. The Town's required contribution amount for FY 2016 is \$172,653.33; less the 2015 prepaid contribution amount of \$27,316.33 and less the Town's actual contributions of \$192,649.79, equals the Town's excess prepaid of \$47,312.79 (a credit).

Member Captain Brough asked if the Town overpaid this amount on purpose.

Finance Director Pam Winegardner replied that this amount of excess was not intentional, and the Town's contribution rate has been adjusted to 12.5% to off-set this.

Mr. Donlan noted also that the Town's payroll went down some this year as well and this could be a reason for the excess contributions as well. He reviewed the detailed actuarial analysis on page 15, stating that the fund is ahead of its expectations regarding funding for the accrued liability. He stated that last year's unfunded actuarial accrued liability (UAAL) was -\$679,288; the expected UAAL as of 10/1/16 was -\$674,279, and the actual UAAL as of 10/1/16 was -\$547,528. Mr. Donlan stated it went up because of the more conservative mortality assumption changes that the state mandated, however the Town's fund is still ahead.

Mr. Donlan reviewed the pension cost figures page 11, showing the normal cost is 24.0% of annual payroll, and the expected Town and state contribution rates of 19.0%. He stated that this is a good report overall and the pension is in good shape. He stated he would be happy to answer any questions.

Member Captain Brough asked for clarification regarding the excess state monies reserve and the ordinance that was cited

Mr. Donlan stated this was shown on page 21 of the report, and explained that the intended purpose of the state money was to provide additional benefits for the police officers and fire fighters of a particular municipality. He stated citizens pay a tax, mainly on their auto insurance (a .85% tax on the premium amount), which goes up to the state and then is disbursed to help fund the pension plans. He stated that the state decided last year that the Town and the union can use the state monies any way they wish as long as they can come to an agreement about it. Mr. Donlan stated the effective date is the next union agreement after July 1, 2015, which will be October 1, 2017 for the Town. He stated the negotiations between the Town and the FOP should include how they want the state monies used. If there is no agreement, then the default is the frozen amount going forward. He explained that any excess above the frozen amount can be split 50/50 between the Town, which can be used to offset their funding, and a share plan for the police officers.

Mr. Donlan further explained that the Town made some benefit improvements in 2006, where the 3.30% multiplier and a \$200 supplement was implemented per Ordinance No. 2006-74.

Ms. Winegardner confirmed that this is why this amount of \$59,889.65 is fixed from year to year.

Mr. Donlan replied that it was a lump sum used in 2006, and is a figure used for history.

Ms. Winegardner asked if she is able to reduce the Town's contribution amount by taking away part of the excess prepaid amount and recalculating the contribution percentage.

Mr. Donlan completed some quick figuring and agreed that the Town could contribute approximately 9.4% instead of 12.5% this year to use up the current prepaid credit.

Board Attorney Kevin Stone asked Mr. Donlan if it is clear from the report that it is an option that the excess contributions to the fund can be used by the Town. He stated the Town's ordinance requires the contributions be made in the amount noted in the Valuation Report of 12%, and he would like it to be clear why the Town would deviate from that if adjusting down the prepaid.

Mr. Donlan stated the footnote on the bottom of page five states that the Town has a prepaid contribution of \$47,312.79 available to help offset the current year's funding requirements.

Mr. Stone stated he wanted to make sure it was documented clearly that this was allowed, and that it may be useful to have a supplemental letter pulling that statement out to clarify this for the Board's purposes in working with the Town.

Chet Ross, auditor for the Town, spoke from the audience, stating that the Town makes its contributions with its payroll every two weeks. He stated he would recommend that the Town adjust its contributions to get that prepaid down to get to the correct amount in the following year.

Ms. Winegardner stated that she recently attended a seminar where it was reported that when other entities were negotiating with the FOP, the FOP felt that any excess monies should go to them instead of the entity because they felt that if it was prepaid, then the entity must not need it. She stated this is why she felt the Town should make the adjustment to reduce the excess contribution amount.

Mr. Donlan stated he would be glad to send a brief letter describing the prepaid.

Mr. Stone asked the current status of the union agreement. He stated there is nothing in the ordinance that addresses the use of the excess revenues, and that is fine if the Town is still operating under an old bargaining arrangement.

Member Captain Brough replied that the Town had a multi-year contract that is not up until next year; the law does not apply to them until the negotiations begin for the new contract.

Mr. Stone recommended that the Town and the union try to come to a mutual agreement regarding the use of the state monies so that it does not default to the state's plan, such as a defined contribution plan.

Town Manager Kris Kollgaard stated that negotiations with the union open in April of 2017 for the new contract beginning October 1, 2017.

Upon a motion by Member Captain Brough and a second by Member Schmied, the Board approved the Actuarial Valuation Report as of October 1, 2016 as presented, by a vote of 4-0.

Upon a motion by Member Captain Brough and a second by Member Schmied, the Board approved the recommended expected rate of return of 7.75% for the current year, the next several years, and the long-term thereafter, by a vote of 4-0.

3. Quarterly Report from The Bogdahn Group (Brendon Vavrica)

Brendon Vavrica of Bogdahn Consulting reported that there is a short letter at the beginning of the report that explains that Bogdahn Group will be rebranding and the name of the firm will change in January. He stated he does not know what the new name will be at this time.

Mr. Vavrica gave a brief snapshot of the market, stating that the market cooperated this past quarter by assisting with getting the numbers up at fiscal year-end. He stated interest rates increased this past quarter, and have increased dramatically since the election. He noted, however, that when interest rates rise, bond prices go down and it resulted in some negative returns on fixed income. He reviewed asset allocation versus target allocation, and noted that real estate is not listed in this report as it was not there on September 30th, but it will show up in the next quarterly report. Mr. Vavrica stated that when interest rates rise, it has a positive effect on real estate and equities generally fare better.

Mr. Vavrica reviewed the total fund figures for the fiscal year, stating the beginning market value at 10/1/15 was \$6,390,095, with contributions of \$367,747, distributions of -\$263,147, expenses of -\$53,955, income of \$259,551, and appreciation of \$352,020; resulting in a market value of \$7,052,311 as of 9/30/16. He reported that the fund had an excellent quarter at 3.24% versus the benchmark of 3.07%, with 9.62% fiscal year to date versus the benchmark of 10.68%. He stated the Town's fund is only slightly behind the benchmark over the trailing five-year period.

Mr. Vavrica reviewed the domestic equity composites, and noted that although the Wells Fargo Advantage Large Cap fund has been on watch for struggling performance, they have improved this past quarter with the 5.61% return reaching over the benchmark of 4.58%.

Mr. Vavrica stated he would be happy to answer any questions.

Mr. Ross asked how the Board determines when it wants to make a different allocation in investments.

Mr. Vavrica replied that the Board relies on the advice of their consultant, which is Bogdahn Consulting. He stated his firm may introduce a new asset class, present support materials, and discuss the merits of such a change to the plan.

Member Captain Brough asked if an asset allocation change approved by the Board requires Town Commission approval as well.

Mr. Donlan replied that the Town Commission does not have to approve a change, although the Town would have to be notified within 30 days.

Mr. Vavrica stated the only issue would be if the Town's ordinance did not allow a particular investment.

Mr. Stone stated this was done in respect to the real estate and group trust because this was beyond the scope of the investment policy in the ordinance.

4. Report by Kevin Stone of Stone & Gerken, P.A.

Mr. Stone stated he had nothing to report at this time.

5. Approval of the Following Invoices Processed for Payment:

Acting Chairperson/Member Capt. Tempesta asked if there were any questions or comments regarding the list of invoices to be processed for payment for approval by the Board; listed as follows. He asked about the duplicate payment to Bogdahn.

- a) Invoice from Salem Trust dated 07/15/2016 for \$1,250
- b) Invoices from Christiansen & Dehner, P.A. dated 06/30/2016 for \$914.72
- c) Invoice from Bogdahn Group dated 06/30/2016 for \$3,875
- d) Invoice from Bogdahn Group dated 09/07/2016 for \$3,875
- e) Duplicate payment to Bogdahn dated 09/28/2016 for \$3,875

Ms. Winegardner explained that she requested that Bogdahn send their invoice in earlier in September so that it could be paid before the end of the quarter and they complied; however, they forgot to cancel the automatic invoice and it was sent as well and paid by Salem Trust. She stated that they have communicated about this and have already received an invoice showing that the next quarter's invoice is paid. It will show on the books as a prepaid.

Upon a motion by Member Cieciek and a second by Member Brough, the Board directed the invoices to be paid as listed by a vote of 4-0.

6. Informational Items from Pam Winegardner, Finance Director:

Finance Director Pam Winegardner reviewed and commented on the following informational items as included in the packet:

- a) Financial Statements for the Quarter Ending September 30, 2016
- b) July - September 2016 Statement from Salem Trust Company
- c) Professional Liability Cover in Effect-Intercontinental/U.S. Real Estate Investment Fund, LLC
- d) Salem Trust Service Report

D. Adjourn: *With no further business to discuss, the meeting was adjourned at 2:25 p.m.*

Kristen Kollgaard, Town Clerk

Chairperson/Captain Jason Brough

Transcribed by Nancy Slaton, Deputy Town Clerk