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DEPARTMENT OF MANAGEMENT
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Secretary

RECEIVED
OCT 28 2014
CITY OF HOLLYWOOD
POLICE RETIREMENT SYSTEM

October 23, 2014

Mr. David Strauss, Chairman
City of Hollywood Police Officers' Retirement System
4205 Hollywood Boulevard, Suite 4
Hollywood, FL 33021

RE: City of Hollywood Police Officers' Retirement System;
10/1/2012 (revised), 10/1/2011, 10/1/2010 and 10/1/2009 Actuarial Valuations

Dear Mr. Strauss:

This is to notify you that we have reviewed the above referenced actuarial reports for compliance with Part VII of Chapter 112, F.S. and Chapter 60T, F.A.C. Based upon the results of our review of these reports, we have determined the **Plan** to be **state accepted**. By this letter, **all reports and actuarial impact statements effective prior to the above valuation date and received** by the Division of Retirement may likewise be considered to be **state accepted**

The revised 10/1/2012 valuation included changes in determination of the actuarial gain/(loss) for the Plan Year. Regulation 1.003(4)(h) FAC requires the exclusion of employee contributions in the development of the expected unfunded liability. The expected unfunded liability must be determined using employer normal cost and employer contributions only. This method will need to be continued in future valuations as required by the above regulation.

In addition, please refer to the attached letter dated July 3, 2014, from Keith Brinkman to Alan Fallik regarding the plan's 13th check provision. If a satisfactory response to this request is not received within a reasonable period of time, section 112.63(4), F.S., states that the Department of Management Services may notify the Departments of Revenue and Financial Services to withhold any funds payable to the plan sponsor (not pledged for the satisfaction of bond debt service), until the additional material information or corrections have been received by this office.

Our review relied upon the actuarial costs and asset amounts as determined by the Plan actuary in the above referenced actuarial reports. Although we reviewed the reports for compliance, consistency and reasonableness, we did not audit the asset or employee data information for accuracy. Accordingly, we express no opinion on the reasonableness of the estimates of the financial status of the Plan. An audit may or may not uncover material issues in the actuarial work performed.

Sincerely,

Joe Edmonds

Joseph M. Edmonds, FSA, EA, FCA
Actuary
Florida Division of Retirement

cc: Jose Fernandez, Plan Actuary
Sara Carr, Division of Retirement
David M. Williams, Plan Administrator

FLORIDA DEPARTMENT OF MANAGEMENT SERVICES
retirement
We serve those who serve Florida

Bureau of Local Retirement Systems
Municipal Police Officers' & Firefighters'
Retirement Trust Funds' Office
P.O. Box 3010
Tallahassee, Florida 32315-3010
Tel: 850.922.0667 | Fax: 850.921.2161 | Toll-Free: 877.738.6737

Rick Scott, Governor

Craig J. Nichols, Agency Secretary

July 3, 2014

Mr. Alan Fallik
Deputy City Attorney
City of Hollywood
2600 Hollywood Blvd.
Hollywood, Florida 33022-9045

Re: City of Hollywood Police Officers' Retirement Plan – additional "13th check"

Dear Mr. Fallik:

This letter responds to your correspondence of November 21, 2013, related to the additional "13th check" benefit awarded to retirees of the City of Hollywood's (the City) Police Officers' Retirement Plan (the Plan) in 2013. You have requested that the Division of Retirement (the Division) review the Plan's Board of Trustees' (the Board) decision to grant an additional distribution to Plan retirees and determine whether payment of the benefit violated section 112.61, F.S., or any other applicable statutes. Pursuant to section 112.665(1)(c), F.S., the Division has the authority to respond to local government requests involving the applicability of laws over which the Division has substantive jurisdiction. All facts as presented in your letters and the relevant authority have been considered in preparation of this response.

The Plan is a "local law plan" established and operating under the provisions of Chapter 185, F.S. (the Chapter). The Plan is required to comply with all the provisions of the Chapter annually, as well as state acceptance under Part VII of Chapter 112, F.S., to maintain eligibility to receive a distribution of insurance premium taxes collected within the city limits.

Section 33.136(N) of the City Code relates to payment of an additional pension distribution and states that such distribution "shall be payable to eligible persons ... for each fiscal year in which the actual rate of investment return earned on fund assets exceeds the assumed rate of investment return on fund assets." The Board is then required to determine eligibility and amount of the additional distribution. In 2011 the City amended this provision to exclude from eligibility all retirees after September 30, 2011.

Section 112.61, F.S., provides that an additional benefit of a local government retirement system or plan may only be funded by actuarial experience if "the present value of such benefits does not exceed the net actuarial experience accumulated from all sources of gains and losses...". Since the City and the Board have acknowledged that the Plan does not meet this requirement, any additional Plan benefits, including the cost of the 2013 additional pension distribution, may not be funded from investment gains.

For the 2013 additional distribution, if the cost is funded by additional contributions by the City to pay the unfunded liability of the Plan, as described in the Plan actuary's letter of November 18, 2009, then the Plan benefit would be allowable under s. 112.61, F.S. If the Plan's shortfall brought on by payment of this additional benefit is not paid through additional contributions, then the Plan benefit would not be allowable under s. 112.61, F.S. The consequences of violating applicable statutes and rules would be withholding of state insurance premium taxes collected under Chapter 185, F.S., and withholding of any funds not pledged for the satisfaction of bond debt service that are payable to the City, until satisfactory adjustment is made to correct the non-compliance.

Since the inception of the additional benefit distribution provision to the City's Code in 2001, the Division is aware of at least three such distributions that have been awarded to Plan retirees. Because this additional benefit provision has once again been triggered, the continued practice of post-funding this additional benefit does not comply with the requirement in s. 112.61, F.S., which prohibits the transfer of costs to future taxpayers that may reasonably have been expected to be paid by current taxpayers.

If the City wishes to limit exposure to the costs associated with this provision, the City may wish to consider amending or rescinding the Plan provision. However, if the benefit provision remains unchanged in the City Code, the Plan actuary must begin estimating the frequency and amounts of future additional distributions and begin including a cost factor to pre-fund it. The basis for this estimation and the calculation of the cost factor should be clearly identified in the actuarial valuations. Future additional benefit distributions will not be state accepted under Part VII of Chapter 112, F.S., if steps are not taken to attribute these costs to current taxpayers, instead of transferring all costs to future taxpayers.

If provisions are not made to satisfy the unfunded liability that was generated by the payment of the additional pension benefit in 2013, the Plan will not be state accepted for compliance with Part VII of Chapter 112, F.S. If the unfunded liability is to be funded through additional contributions, please provide verification of the City's commitment to fulfilling these funding requirements in full until the liability is satisfied.

Please let me know if you have any questions or if the Division can be of further assistance.

Sincerely,

Keith Brinkman

Keith E. Brinkman, Chief
Bureau of Local Retirement Systems

cc: David Strauss, Chairman
David Williams, Administrator
Steve Cypen, Esq.
Jose Fernandez, Actuary
Sarah Carr, Benefits Administrator, MPF Office