

HOLLYWOOD POLICE OFFICERS' RETIREMENT SYSTEM
Office of Retirement
4205 Hollywood Blvd., Suite 4
Hollywood, Florida 33021

July 31, 2015
10:30 AM

MINUTES

A regular meeting of the Hollywood Police Officers' Retirement System was held on Friday, July 31, 2015, at 10:30 AM, in the Office of Retirement, 4205 Hollywood Blvd., Suite 4, Hollywood, Florida 33021.

PRESENT: C. Marano, Acting Chair, P. Laskowski, R. Brickman, Chris O'Brien M. Pollak and V. Szeto.

Excused Absence: D. Strauss

Also present were Kee Eng, City of Hollywood; Ed Rick, Eagle Asset; Steve Cypen, Board Attorney of Cypen & Cypen and David M. Williams, Plan Administrator.

PUBLIC COMMENT

No public comments presented

READING OF THE WARRANTS

The warrants since the last meeting were reviewed and executed by the Board of Trustees.

APPROVAL OF THE MINUTES OF THE JUNE 26, 2015 MEETING

Mrs. Marano asked if there were any additions or corrections to the Minutes of the June 26, 2015 pension board meeting. Mr. Laskowski made a motion to approve the Minutes of June 26, 2015, which was seconded by Mr. Szeto. All board members voted yes.

ATTORNEY'S REPORT

- Mr. Cypen reviewed a correspondence from the Internal Revenue Service (dated July 27, 2015) relating to the effort to secure a "Letter of Determination" for the Plan. The Plan is under final evaluation by the Quality Assurance staff.
- City of Hollywood Resolution R-2015-214 was distributed in the Trustee Packet. The Resolution related to the city commission authorizing litigation against the Board of Trustees with regard to the payment(s) of the supplemental distribution(s). Mr. Cypen advised that the city was put on notice that he will receive service for the matter on behalf of the Board. Trustees were baffled over the position of the four city commissioners (Patty Asseff, Richard Blattner, Linda Sherwood and Peter Bober) who authorized this action. The Board drew exception to the litigation in part due to the authority sought and/or obtained from the State of Florida – Division of Management Services. Discussion ensued with regard to special counsel in the matter, by Board felt the firm of Klausner, Kaufman, Jensen & Levinson would be the best suited to handle the case. Mr. Brickman made a motion to engage Klausner, Kaufman, Jensen & Levinson as special counsel, which was seconded by Mr. O'Brien.

Con't:

All board members voted yes. Mr. Cypen will communicate accordingly with the representatives of Klausner, Kaufman, Jensen & Levinson.

- Mr. Cypen reviewed an update by special counsel Daniel Thompson, from Berger Singerman.

The lawsuits filed by the Police and Firefighters Trustees, and individual Plaintiffs Huddleston and Szeto, remain pending in Broward County Circuit Court as to the following:

- Plaintiffs' count challenging the validity of the referendum election process that enabled the City of Hollywood to make unilateral changes to the City's pension ordinances,
- a counterclaim filed by the City of Hollywood against the Police Trustees and officers Bien and Ruggles challenging certain Trustee DROP decisions that the City claims were prohibited by the ordinance changes, and
- a Counterclaim filed by the Trustees to the City's Counterclaim that challenges the constitutionality of the Florida law authorizing the City to use the financial urgency determination process to implement unilaterally the ordinance changes beyond September 2012. That Counterclaim raises issues similar to those raised by both Trustees in their original complaint in a separate count that was dismissed on jurisdictional grounds (in that it should be heard by PERC).

At the direction of the Trustees at their March 27, 2015 Shade meetings, litigation on this case by the Trustees was put on hold pending the outcome of a case already argued before but not yet decided by the Florida Supreme Court, *Headly v. City of Miami*, challenging the constitutionality of the City of Miami's use of the same financial urgency statute to make unilateral pension ordinance changes there.

In another Broward County Circuit Court case, officers Bien and Ruggles and two other police officers sued the City of Hollywood challenging the constitutionality of City's use of the same financial urgency determination process to the same police pension ordinance revisions at issue in the Trustees case to deny DROP benefits to those officers. On June 26, 2015, the Court ruled in favor of the officers, finding the application to be unconstitutional and directing the City to award DROP benefits to those officers. That Court also rejected the City's claim that jurisdiction over the case belonged at PERC instead of the courts. The City has appealed that final judgment to the 4th District Court of Appeal.

As a result of this litigation, the ultimate determination remains uncertain as to whether the City lawfully used of the financial urgency process to enact pension changes pursuant to the 2011 ordinances.

- The Audit engagement letters for Goldstein Schechter Koch (GSK) were reviewed and approved by Mr. Cypen for legal material. Fees will not exceed \$20,250.00. Mr. Brickman made the motion to engage Goldstein Schechter Koch for the September 30, 2015 Financial Statements. Motion seconded by Mr. Laskowski.

ADMINISTRATIVE REPORT

Mr. Williams presented the Administrative Report to the Board.

DROP/PRB Loans: Mr. Williams cited the respective member(s) loan request. He outlined that each member(s) have the funds in his/her personal DROP/PRB account to cover the loan(s) and he/she has been a participant in the DROP/PRB plan for the required amount of time. No conflict exists with the 12-month rule.

Return of Pension Contribution: Mr. Williams outlined the request by Mr. Ryan O'Malley for the return of his pension contributions. Member separated service on April 5, 2015.

After considering the issues outlined, Mr. O'Brien made the motion to approve the foregoing as noted, which was seconded by Mr. Laskowski. All board members voted yes.

Required Disclosures: Mr. Williams reviewed the pension board web site – Required Disclosure Page for the Trustees information.

Mr. Williams cited that the main introduction page has the following information for the visitor to review prior to entering the disclosure documents.

OVERVIEW

This memorandum is intended to provide background and additional disclosure to accompany the new reporting required by Senate Bill 534 (codified as Section 112.664, Fla.Stat.)(hereinafter "S.B. 534"). Although S.B. 534 was adopted in May of 2013, the detailed regulations spelling out the specific reporting requirements and procedures were not finalized by the Department of Management Services in Tallahassee until April of 2015. The Board is pleased to provide this memorandum as a service to the active membership, retirees and beneficiaries and in an effort to answer anticipated questions in connection with the Board's new Section 112.664 Report.

LEGAL PROTECTIONS

Article X, Section 14, of the Florida Constitution specifically protects pension benefits for public employees and mandates that Florida governmental pension benefits are required to be funded "on a sound actuarial basis." Indeed, in Section 5 of S.B. 534 the Legislature declared that it is an important state interest that government retirement systems in Florida be "managed, administered, and funded in a sound manner as required by s. 14, Article X of the State Constitution and part VII of chapter 112, Florida Statutes."

According to state statute, the total contributions to a retirement system "shall be sufficient to meet the normal cost of the retirement system or plan and to amortize the unfunded liability" See Â§112.64(2), Fla.Stat. All Florida cities are required to make the mandatory employer contributions to the pension plan "at least quarterly." See Â§112.64(1), Fla.Stat. The required contributions are actuarially determined by the independent actuary employed by the Board of Trustees. If a city fails to comply with its mandatory pension contributions, the Department of Management Services in Tallahassee is empowered to withhold state funds and tax revenue. See Â§112.63(4)(b), Fla.Stat. Thus, unlike widely reported examples of pension underfunding in other states, Florida law mandates "funding discipline" by the plan sponsor.

FUNDING DISCIPLINE

As a result of the legal protections for governmental pensions in Florida, by law the Retirement Plan will never become insolvent because it is required to be actuarially funded. The Retirement Plan is actuarially funded through a combination of investment earnings, city, member and state contributions.

DISCOUNT RATE/INVESTMENT EARNINGS ASSUMPTION

In order to properly fund the retirement system, the Board's actuary uses several assumptions and federally approved actuarial methods. One of the most important assumptions is the "discount rate", which is otherwise referred to as the Plan's "investment earnings assumption". Even though the discount rate is a long term projection, the Board reviews the investment assumption annually and works closely with independent plan fiduciaries to make sure that plan assets are invested consistent with a long term investment policy. Although investments fluctuate from year to year, the Board has purposely chosen a discount rate which is supported by long term investment performance and financial projections.

UNREALIZED GAINS

Financial markets have performed well for the past several years, following the market correction in 2009. For example, the annualized rate of return by the Standard & Poor's 500 ("S&P 500") index has been approximately 13% per year for the past several years. As a result of the strong equity returns for the past several years, most governmental pension plans have yet to recognize all of the resulting actuarial gains. Accordingly, it is noteworthy "unrealized" investment gains have not yet been recognized in the Board's Section 112.664 Report or the Board's FY 2014 valuation.

SENSITIVITY TESTING

S.B. 534 requires the Board to provide hypothetical "run out" dates, assuming that the Board used a theoretical investment return assumption of 2.00% less than the Board's current discount rate. All things being equal, the use of a lower investment return assumption will lower the Plan's current funded ratio. S.B. 534 also requires the Board to include in the new Section 112.664 Report additional "run out" dates, assuming that the plan sponsor, member and State of Florida, stopped contributing to the Retirement Plan. As described above, Florida law mandates funding discipline by plan sponsors. Accordingly, the hypothetical run out dates in the S.B. 534 report are an academic exercise which do not impair the ability of the Board to pay constitutionally protected benefits.

In addition to the "run out" dates required by S.B. 534 in the new Section 112.664 Report, the Board also directed its actuary to project the Retirement Plan's valuation using an investment return assumption of 2.00% higher than the Board's current discount rate. In other words, the Board is of the view that proper "sensitivity testing" requires the evaluation of several possible investment return scenarios. For this very reason, new Governmental Accounting Standards Board ("GASB") requirements were recently implemented across the country. In fact, the Board's FY 2014 valuation contains a projection of benefit payments for the next 100 years. A copy of the Board's FY 2014 valuation containing the new GASB 67 100 year projection is available on-line, as are the additional sensitivity testing calculations performed by the Board's actuary.

AMORTIZATION SCHEDULE

Defined benefit pensions are paid monthly over a retiree's or beneficiary's lifetime. As a result, pension trustees invest with a long term investment horizon. By law, Florida governmental plans are permitted to amortize their liabilities over thirty years. While the "funded ratio" of many Florida governmental plans is less than 100%, it is anticipated if all assumptions are borne out that the Retirement Plan will be approximately 100% funded at the end of the 30 year amortization period. Many professionals consider the Board's amortization schedule to be similar to a 30 year mortgage. The remaining balance on one's mortgage is usually less important than the ability to make the full monthly payments.

PORTFOLIO DIVERSIFICATION

As long term investors the Board employs a long term investment strategy which is based on a written investment policy. The Board retains a qualified investment consultant who monitors the Board's portfolio, as a fiduciary, consistent with the Board's investment policy. The Board's investments are diversified into several assets classes managed by different investment advisors in order to minimize volatility in the portfolio. The past five years of investment returns (along with the allocations of cash, equity, bond and alternative investments) are set forth in the new Section 112.664 Report. A copy of the Board's quarterly investment reports are available on-line.

All the required documents are posted, thus we are in compliance of state law. Further the link to our page was provided to the city clerk along with an explanation for posting to the city web site as well. Mr. Williams thanked Mr. Cypen, Mr. Fernandez and Mr. McCann & Vavrica for their individual efforts and on-going commitment to this plan.

QUARTERLY PRESENTATION BY EAGLE ASSET MANAGEMENT

Mr. Rick appeared before the Board and stated the market value of Eagle Account was at \$20,553,473.00 as of June 30, 2015. Since inception (01-08-03) the Eagle Small Cap Account realized an annualized gross return of 11.23% vs. 11.17% for the benchmark. For the quarter ending June 30, 2015, Eagle Small Cap Account returned -0.67%, compared to 0.42% for the Russell 2000. On a one year rolling basis, the portfolio returned 6.74% compared to the benchmark of 6.49%. The 3 & 5 Year returns were valued at 17.52% & 16.46% in comparison to the benchmark returns of 17.81% & 17.08% respectively.

Mr. Rick provided a market overview: The Russell 2000 Index was up 0.4 percent in the second quarter. In the index, the health care sector (up 5.7 percent) led individual-sector performance, followed by information technology (up 1.8 percent). Utilities was the weakest sector, down 7.0 percent. Much of the health care sector's move was led by the biotech industry which was up 12.4 percent in the quarter and 30.2 percent year to date.

Contributors to relative performance: Utilities in the index significantly underperformed the market this quarter. Eagle currently does not own utilities due to elevated valuations in the sector. Eagle outperformed the benchmark due to strong stock selection. Vector Group beat the EBITDA and EPS estimate as the company was more profitable because price increases offset the decrease in volumes. Harbinger Group was up following news that its second largest holding, Fidelity Guaranty and Life, is potentially for sale.

Detractors from relative performance: Stock selection in IT services and semiconductors led to underperformance. Constant Contact missed expectations for the quarter and lowered full year revenue guidance due to an execution issue.

Kulicke & Soffa reported revenues in line with expectations, yet earnings missed expectations. The company saw a diminution of its dominant market share in wire bonding for semiconductors. While maintaining an inline weight, Eagle underperformed due to retailers and household durables. Burlington Stores was down after slightly missing revenue guidance. The company was negatively affected by unfavorable weather.

Mr. Rick indicated that Eagle continues to emphasize owning quality within the portfolio by trying to select companies generating strong free-cash-flows and trading at what they view as reasonable valuations.

NEW BUSINESS

Plan Adm. – Employment Package

As a career employee and after 14 years of committed service, Mr. Williams respectfully requested the Board consider two additional benefits to his current employment package.

1. Permit the option to cash out unused vacation time on an annual basis. Currently it is rolled over if it is not used.
2. Establish a collateralized Employee Loan Provision (ELP), it would be similar to the provisions of the DROP and PRB loans. (Capped like existing loans, interest would be incurred, payroll deductions would be automatic). Mr. Williams reviewed this matter with Mr. Cypen, Board Counsel and Mr. Friedman, Board Tax Attorney and it would be a permissible employee benefit option. The benefit is limited to Mr. Williams only.

The Board felt cashing out time would reduce potential payouts in the future, thus reducing costs. In terms of the ELP the Board felt it would not hurt the Plan and help the employee so there was no opposition.

Mr. Pollack made a motion to grant the requests as cited, which was seconded by Mr. O'Brien. All board members voted yes.

OPEN BOARD DISCUSSION

No open discussion ensued.

MEETING ADJOURNED

There being no further business, the meeting was adjourned at 11:15 AM.

Respectfully submitted,

C. Marano, Secretary

APPROVED:

D. Strauss, Chairman