

**MINUTES
REGULAR PENSION BOARD MEETING
CITY OF DELRAY BEACH FIREFIGHTERS' RETIREMENT FUND
MAY 26, 2021**

Chair Giaccone read a prepared script. Script made part of these Minutes.

1. CALL TO ORDER, ROLL CALL

Chair Giaccone called the meeting to order at 9:04 a.m.

Board Members present via communication media technology: Chair Gregory Giaccone, Vice-Chair Craig Mahoney, Secretary Jack Warner, Thomas Glanfield and Alan Kirschenbaum.

Also present via communication media technology: Board Attorney Janice Rustin (Lewis, Longman & Walker as designated by City Attorney), Scott Porter (Caler, Donten, Levine, Cohen, Porter & Veil, P.A.), Jeffrey Amrose (Gabriel, Roeder, Smith & Company), Brendon Vavrica (AndCo Consulting), and Pension Administrator Lisa Castronovo.

Guests present via communication media technology: John Lege, John Mainville

2. AGENDA ADOPTION

Ms. Rustin recommended a change in the February 11, 2021 minutes, effectively moving May 26, 2021 Agenda Item 4.a. to Agenda Item 2. The February 11, 2021 Minutes were tabled.

MOTION made by Mr. Warner, seconded by Mr. Glanfield, to adopt the May 26, 2021 Agenda, as amended. In a voice vote by the members, **Motion** passed 5-0.

3. COMMENTS

- a. Public
None
- b. Active and Retired Members of the Plan
None
- c. Board of Trustees of Firefighters' Retirement System
None

4. CONSENT AGENDA

- a. February 11, 2021 Regular Meeting Minutes – moved to Agenda Item 2
- b. Warrant Ratification (#255)
- c. Warrant Approval (#256)
- d. Ratify/Approve – Refunds/Benefit Enhancements/New Retirement/DROP/Vested/Death Annuities

MOTION made by Mr. Warner, seconded by Mr. Glanfield, to approve Consent Agenda Items 4.b.-d. In a roll call vote of the members, **Motion** passed 5-0.

5. REPORTS

a. Caler, Donten, Levine, Cohen, Porter & Veil

i. September 30, 2020 Audit Report

Report made part of these Minutes

Mr. Porter reviewed the draft September 30, 2020 Audited Financial Statement report emphasizing that the auditor's opinion was "unmodified" which was the best opinion that can be issued. Upon the completion of his report overview, Mr. Porter stated there were no material weaknesses, significant deficiencies, or non-compliance issues.

MOTION made by Mr. Warner, seconded by Mr. Glanfield, to accept the September 30, 2020 Audit Report with one minor change as noted by Mr. Glanfield. In a roll call vote of the members, **Motion** passed 5-0.

b. 2020 Annual State Report – Lisa Castronovo

Report made part of these Minutes

Ms. Castronovo stated she needed Board approval to submit the 2020 Annual State Report to the Florida State Division of Retirement now that the September 30, 2020 Audit Report was accepted. Ms. Castronovo said she was comfortable with the information contained in the 2020 Annual Report and that it had been reviewed by Scott Porter and his team at Caler, Donten, Levine. Ms. Castronovo reminded the Board the State uses the information provided in the annual report to issue Chapter 175 premium tax distributions.

MOTION made by Mr. Warner, seconded by Mr. Glanfield, that the information provided for the 2020 State Report had been reviewed by the Board and was approved to be submitted to the State. In a voice vote by the members, **Motion** passed 5-0.

a. Gabriel, Roeder, Smith & Company ("GRS") – Jeffrey Amrose

i. October 1, 2020 Actuarial Valuation Report

Report made part of these Minutes

Highlights of the October 1, 2020 Actuarial Valuation Report:

- The City's required contribution increased from \$8,121,146 for the 2020-21 fiscal year to \$8,224,894 for the 2021-22 fiscal year, an increase of \$103,748, but a decrease of 6.36% as a percent of payroll. The components accounting for the change in the required contribution were a \$109,000 increase in the amortization payment on the Unfunded Actuarial Accrued Liability, a \$235,000 decrease in the Normal Cost, and a \$250,000 decrease due to benefit revisions.
- If the City wished to pay the 2021-22 required contribution on October 1, 2021, the first day of the fiscal year as done in the past, the contribution would be \$7,918,715.
- The benefits were revised to allow members to participate in the DROP up to a maximum of 8 years (but no later than a total of 38 years of service). DROP participants contribute 4% of pensionable earnings while participating in the DROP.
- Actuarial assumptions were revised to reflect the new DROP provisions.
- The plan experienced a net actuarial loss of \$433,000 for the year meaning actual experience was less favorable than anticipated. The loss was due primarily to higher-than-expected salary increases (7.1% compared to 6.6% expected). The loss was partially offset by a small investment gain (6.8% compared to 6.75% expected).

- The funded ratio on October 1, 2020 was 66.6% compared to 63.7% on October 1, 2019. For every additional \$1M in contributions, the funded ratio would increase 0.6%.
- The market value of assets exceeded the actuarial value of assets by \$1.1M. The excess would gradually be recognized over subsequent years resulting in decreased required contributions.
- The estimated required City contribution for fiscal year end 2023 is \$8,400,000 assuming a 5.55% increase in total covered payroll and no gains, losses, or assumption changes.

There was a discussion regarding how the unfunded actuarial accrued liability (UAAL) was paid off. Mr. Amrose said it was paid off as a level percent of pay like the Police Officers' plan but unlike the General Employees' plan which was paid off as level dollar contributions over a set period of future years. When asked which method was better, Mr. Amrose said he liked level percent of pay because it kept the City contributions more consistent as a percent of pay since the amortization payments increase over time as a percent of pay.

Mr. Glanfield asked if the ultimate goal was to get to a 100% funded ratio or at least a ratio in the 80's to which Mr. Amrose said the goal should be 100% and Florida statute required that the ratio be 100% after 30 years. Mr. Glanfield then asked if the Board should be more aggressive to increase the funded ratio. Mr. Amrose said the Board had made a good start to increasing the ratio by lowering the assumed rate of return and by tweaking some of the actuarial assumptions based on the experience study done previously.

ii. Actuarial Studies Review

Letter report made part of these Minutes

Mr. Amrose reviewed a summary of the various assumption change studies GRS performed noting the amount the City's contribution would change for each adopted change. Mr. Mahoney asked what the City's contribution would do if the Board decided to pay the UAAL off as a level dollar amount instead of as a percent of pay. Mr. Amrose said the City's contribution would increase approximately \$430K since amortizing the UAAL as a level dollar amount pays off the UAAL quicker.

Mr. Warner said he would like to adopt a 6.25% assumed rate of return along with a 15-year amortization period for all new UAAL bases and that he preferred amortizing the UAAL as a level dollar amount rather than as a lever percent of pay. Mr. Amrose said that both the Police plan and General Employees' plan were using 6.75% for their assumed rate of return with the Police plan amortizing its bases over 20 years and the General Employees' plan amortizing over 25 years.

Mr. John Lege, the City's finance director, asked the Board to keep in mind the City's budget when setting new assumptions as any substantial drop in the assumed rate of return or amortization period would have a negative effect on the budget and the City's ability to keep its budget in balance. Mr. Lege noted that out of 130 public pension plans in Florida, only 10 had assumed rates of return less than 6.75%. Further, perhaps the Board could consider reducing the amortization period one year each year for the next five years.

Mr. Kirschenbaum liked the idea of a “stairstep” approach to reducing the amortization period and the assumed rate of return, especially keeping in mind the City’s need to keep its budget in balance. Further, considering one of the base idea of pension plans is that they are for perpetuity, assumption changes can be made over time rather than all at once. Mr. Glanfield and Mr. Kirschenbaum said they would like to decrease the assumed rate of return to 6.625% and the amortization period to 19 years. Mr. Amrose said those assumption changes would increase the City’s contribution about \$285K for the 2021-22 fiscal year.

MOTION made by Mr. Glanfield, seconded by Mr. Kirschenbaum, to lower the assumed rate of return from 6.75% to 6.625%, lower the amortization period from 20 years to 19 years, change the financing of the unfunded actuarial accrued liability from level percent of pay to level dollar amount effective with the October 1, 2021 actuarial valuation.

Above **Motion** was amended to lower the assumed rate of return from 6.75% to 6.625% and lower the amortization period from 20 years to 19 years effective with the October 1, 2020 actuarial valuation. In a roll call vote of the members, **Motion** passed 5-0.

MOTION made by Mr. Mahoney, seconded by Mr. Warner, to accept the October 1, 2020 Actuarial Valuation Report as amended. In a roll call vote of the members, **Motion** passed 5-0.

MOTION made by Mr. Warner, seconded by Mr. Kirschenbaum, to adopt a rate of return of 6.625 for this year and the next several years. In a roll call vote of the members, **Motion** passed 5-0.

MOTION made by Mr. Warner, seconded by Mr. Mahoney, change the financing of the unfunded actuarial accrued liability from level percent of pay to level dollar amount (or alternatively, leave the actuarial method as level percent of pay, but decrease the payroll growth assumption from 1.17% to 0.0%) effective with the October 1, 2021 actuarial valuation. In a roll call vote of the members, **Motion** passed 5-0.

Mr. Amrose reported that his team had completed programming the System’s benefit provisions into the new pension administration software and was currently working with Ms. Castronovo on extracting the member data. Once the member data was uploaded, they would start testing the system and benefit estimator.

- a. AndCo Consulting – Brendon Vavrica
 - i. Portfolio Performance Review – Quarter End March 31, 2021
Report made part of these Minutes.

Mr. Vavrica reported the System’s net rate of return for quarter ended March 31, 2021, was 3.91% compared to its benchmark of 2.47%. For the fiscal year through March 31, 2021, the System’s rate of return was 15.89% with all asset classes performing well. The System’s market value increased from \$138.8M on December 31, 2020, to \$142.2M on March 31, 2021.

Mr. Vavrica noted that large cap equity manager Boston/BNY Mellon had come back strong after a bit of underperformance in 2020 and that Polen Capital was doing okay by slightly outperforming their respective benchmark since their inception in early 2019. Mr. Vavrica reminded the trustees that even though Polen was behind its benchmark for the year it was not unexpected as they were a conservative manager and as such would slightly underperform in high growth quarters but outperform in sideways or down quarters. Mr. Vavrica noted international equity manager Harding Loevner performed poorly in the quarter but had performed well over the last two and three years.

Regarding fixed income manager Garcia Hamilton, they had good performance in the last year but consistently underperformed over most measurement periods. Mr. Glanfield questioned if it might be time to get out of Garcia Hamilton because even though they sometimes outperformed the index, the index to which they were measured was terrible. When Mr. Kirschenbaum asked why Garcia Hamilton underperformed, Mr. Vavrica responded that they were rather volatile due to their duration stance. The Board agreed to give Garcia Hamilton another quarter before seeking to replace them.

ii. Flash Report – April 2021

The System's net rate of return for the month ended April 30, 2021, was 3.81% compared to its benchmark of 3.01 and for the fiscal year through April 30, 2021 was 20.3% versus the benchmark of 15.6%. Both the growth equity manager, Boston/BNY Mellon, and the value equity manager, Polen Capital, experienced great returns in April.

Mr. Vavrica told the Board it was necessary to rebalance the fund since domestic equity accounted for 59.4% of the overall fund investments while its target allocation was 52% with a top range of 58%. Ms. Rustin said the investment policy allowed an asset class to be over its target allocation for a short period of time, but the Board would have to act at its next regular meeting (in August 2021) to bring any overweight asset class back into its respective range.

iii. Real Estate Diversification Review & Discussion

Report made part of these Minutes

Mr. Vavrica said if rebalancing was done to move funds to the current real estate manager, American Realty, 40% of such funds would go to office space since that was what they invest in.

Mr. Vavrica presented information on Carlyle Investment Management and Harrison Street Real Estate Capital who offer open-end real estate funds like that offered by American Realty noting that while both funds fees and structure were similar to American Realty, neither fund had exposure to office space. Like American Realty, both would make capital calls when funds were needed with the initial capital calls coming two to four quarters after a contract was signed.

Mr. Glanfield asked Mr. Vavrica if the trustees should move money out of equity and into Carlyle Investment Management. Mr. Vavrica responded that he was generally optimistic about equity and thus was okay, for risk control measures, to only move \$5M out of equity. The trustees agreed they wanted to leave as much money as possible in equity and thus were not inclined to transfer any more money than absolutely necessary out of equity to any other asset class.

Mr. Warner and Mr. Glanfield said they would consider moving \$5M from the over-target equity funds to a fixed income-type investment like Crescent Capital's direct lending fund. Mr. Vavrica said he was okay leaving everything as is for now as long as corrective action was taken at the next meeting. If funds were moved out of equity immediately, he recommended taking it from growth equity and if funds were going to stay in equity until the next meeting, he recommended moving money from growth equity to value equity. Discussion ensued.

MOTION made by Mr. Mahoney, seconded by Mr. Warner, to transfer \$2.5M from RhumbLine and \$2.5M from Polen Capital to BNY Mellon. In a roll call vote of the members, **Motion** passed 5-0.

Mr. Vavrica briefly reviewed the value equity managers' report and the emerging markets managers' report that he had presented to the Police Officers' Board of Trustees. The trustees listened to the information presented but took no action.

c. Lewis, Longman & Walker – Janice Rustin

Ms. Rustin reminded the trustees that they have to file their financial information with the State by June 30, 2021.

d. Pension Administrator – Lisa Castronovo

Ms. Castronovo 1) provided the trustees the Retirement System's financial statement as of September 30, 2020 and the 2020-21 administrative expense budget versus actual expenses through May 5, 2021; 2) told the trustees they would find NFP's March 31, 2021 Executive Summary of the DROP in the Agenda backup material; 3) reported all 118 benefit verification letters had been returned so she did not suspend any retiree/beneficiary benefits; and 4) requested the Board share the cost for Pension Specialist Elizabeth Brown to acquire her notary certification and for herself to attend FPPTA's 37th Annual Conference in Orlando in late June 2021.

MOTION made by Mr. Warner, seconded by Mr. Kirschenbaum, to share the cost for Ms. Brown to acquire a notary certification with the City's two other pension plans. In a roll call vote of the members, **Motion** passed 5-0.

MOTION made by Mr. Warner, seconded by Mr. Glanfield, to share the cost with the City's two other pension plans for Ms. Castronovo to attend FPPTA's 37th Annual Conference and any other conference in the future she attends. In a roll call vote of the members, **Motion** passed 5-0.

6. ADMINISTRATIVE ITEMS

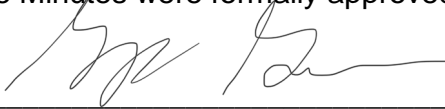
a. Ordinance Amendment

Ms. Castronovo said that since the City a couple of weeks ago adopted the Ordinance amendment that allowed current DROP participants to extend their DROP participation period an additional three years if they so elected and agreed to contribute 4% of their pensionable earnings for all DROP participation service, she would work with the City's payroll department to calculate the 4% contribution amount and with ICMA-RC to determine how she would collect the required funds from each DROP participant's account.

ADJOURNMENT

The meeting adjourned at 1:03 p.m.

I, Gregory Giaccone, the undersigned, am the Chair of the City of Delray Beach Firefighters' Retirement System Board of Trustees ("Board"). The information provided herein is the Minutes of the May 26, 2021 regular meeting of said body. These Minutes were formally approved and adopted by the Board on August 12, 2021.



Board of Trustees, City of Delray Beach
Firefighters' Retirement System

NOTE TO THE READER: If the Minutes you have received are not complete as indicated above, this means these are not the official minutes of the Board of Trustees of the City of Delray Beach Firefighter's Retirement System. Minutes will become official only after they have been reviewed and approved, which may involve some amendments, additions or deletions to the Minutes as set forth above.

NOTE: upon official approval by the Board of Trustees, the Minutes will be posted on the City of Delray Beach website at: www.delraybeachfl.gov.