

FIREFIGHTERS' SUPPLEMENTAL PENSION BOARD MEETING MINUTES

AUGUST 9, 2006

Chairperson Mike Thomas called the City of Lakeland Firefighters' Supplemental Pension Board to order for a regular meeting, Wednesday, August 9, 2006, 1:00 p.m., at 730 E. Main Street, Lakeland, Florida. Present: Chairperson Mike Thomas, Board Member Rick Beale, Board Member Jim Hills, Board Member Tim Spivey, Board Member Lyonel Lindsey, Kim Calhoun, Joe Bogdahn, Gary Clark, Annette Wieck, Dana Blydenburgh. Absent: Board Member Bob Georges.

❖ Approval of Minutes

- May 10, 2006 Firefighters' Supplemental Pension Board Minutes and the May 30, 2006 combined PORF and Firefighters' Supplemental Boards were approved unanimously.

❖ Manager Report

- Ms. Kim Calhoun of Westwood Management appeared before the Board. Ms. Calhoun provided the Board with a portfolio review, current market observations and market outlook.
 - ◆ Fears of rising inflation and slowing economic growth dominated investor sentiment during the 2nd quarter, resulting in the first quarterly loss for the broad market since early 2005. Beginning in April, stronger than expected economic data pushed the yield on the 10-year Treasury above 5%. Concern began in early May when the April CPI report reflected a faster rate of core inflation than investors expected, while the Fed expressed concern about inflationary pressures. Higher levels of inflation normally lead to greater than expected increases in the Fed Funds rate that, in turn, generally produce slower economic growth. This sequence of events has the potential to produce a stock market's worst enemy – stagflation, or a period of inflation and declining economic growth. The Fed Funds rate was raised on two occasions during the past 3 months, climbing by a total of 50 basis points to the current level of 5.25%. Westwood believes the Fed will remain in a reactionary mode, with a bias toward pausing.
 - ◆ Ample levels of liquidity had been driving speculators into many commodities, thereby boosting their prices, at the same time that rising global demand for metals such as copper, nickel, and iron ore had fueled a fundamentally based increase in such commodity prices. Once the market began pricing in lower liquidity and slower global economic growth, commodity prices fell rapidly. One exception to this trend in the quarter was crude oil, which rose from the high \$60/bbl to the mid \$70/bbl as geopolitical instability continued to raise doubts about the availability of crude supplies. As a result, energy stocks were among the best performers in the market during the quarter.
- Portfolio performance fiscal year-to-date (10/1/05-6/30/06) was 6.7% outperforming the total fund benchmark of 4.1%. The portfolio end market value as of 6/30/06 was reported at \$14,950,345.

❖ Consultant Report

- Joe Bogdahn of Bogdahn Consulting, LLC. appeared before the Board to provide the quarterly investment review. The three year trailing return is 12.18% versus the policy of 9.52%; the one year trailing return is 10.56% versus the policy of 6.98%. The fund earned 4.75% year to date, placing it in the 4th percentile.

❖ Administrative Report – Gary Clark

➤ Retirement Refunds

NAME	CHECK DATE	REASON	AMOUNT
Dausy,Jonathan W	6/24/2006	TER	\$1,126.52
Miller,Gregory W	6/24/2006	TER	\$4,503.70
Pritchard,Cristin A	6/24/2006	TER	\$212.21
Total	3		\$5,842.43

- Board Member Tim Spivey moved to approve the above refund. Motion was seconded and passed.
- The premium tax distribution for 2005 is \$418,705.43.

❖ Trustee Requested Items

- Board reviewed legal charges from Gray Robinson for the period covering the first quarter of 2006. Each line item was discussed with a few of the charges in question by Board member Tim Spivey. Gary Clark mentioned that he would produce an updated invoice with actual payment issued to Gray Robinson based on that time period.

❖ **Miscellaneous**

- Board member Rick Beale inquired on the status of meeting the Chapter 175 State minimums for the City of Lakeland Firefighters as was done with the City of Lakeland Police Officers. At the request of the Chairperson, a letter urging action by the City and the IAFF to resolve the minimum benefits matter was drafted. The Board voted unanimously to have Chairperson Mike Thomas forward the letter to City Management and the IAFF. (Copy attached) The Trustees recognize no recommendation for benefit increases in the supplemental plan can be considered until the Chapter 175 minimum benefit levels are satisfied. Accordingly, operating the plan in the best interests of the membership is being restricted by this minimum level issue.
 - ◆ The Board of Trustees recommends the City and the IAFF agree to incorporate the Chapter 175 minimums into the Employees' Pension Plan as was done for Police Officers. This action will reduce the impact of the October 2003 modification by almost 50%. Once the minimums are satisfied, the Trustees can evaluate the potential for increasing the benefit in the Supplemental Plan for active members.
 - ◆ In response to ongoing concerns about the current retirement system relative to the Florida Retirement System, further discussion ensued by Gary Clark regarding whether or not the general plan is responsive to the benefit environment created by the plan modifications enacted 10/1/2003. He commented that he isn't sure one can bend the general plan further to address recruiting and retention competitiveness at this point in time. Gary Clark believes it may be best for the Firefighters to pull out of the general plan to accomplish competitiveness. He has structured a computer model emulating the benefit design of the State Retirement System (less the built-in COLA) that can be utilized to evaluate the cost and benefits of such a transition to a singular plan.
- Upcoming tentative board meeting dates:
 - November 8, 2006
 - February 14, 2007

❖ **Adjournment**

- Meeting adjourned at 3:30 p.m.

FIREFIGHTERS' SUPPLEMENTAL RETIREMENT BOARD

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August 9, 2006

To: Lakeland City Management & IAFF

The Trustees of the Firefighters' Supplemental Pension Plan desire to apprise Lakeland City Management and the IAFF of an issue which indirectly impacts the Plan and the City. The Trustees also believe there is a course of action which holds benefit for both the City and plan members. The Trustees urge both the City and the IAFF take the action recommended herein.

Chapter 175, Florida Statutes, stipulates minimum benefit level for firefighters are satisfied as a condition for continued receipt of insurance premium tax money from the state. The statute also indicates that until those minimum benefit levels are met, state funds cannot be used for any other purpose.

In October 2003, the City of Lakeland modified the Employees' Pension Plan for all new employees. Firefighters receive the majority of their pension benefit from the Employees' Plan. This modification substantially reduced the benefit for employees hired after that date will receive. In most cases, the benefit has been cut in half.

Between FY 1991 and FY 2003, 20 firefighters terminated prior to retirement. That equates to about 1.5 terminations per year. In FY 2004 and FY 2005, 8 firefighters terminated. To date in FY 2006, seven firefighters have terminated employment with LFD; six served less than two years before leaving for other fire departments. The reason most often given for leaving is a better retirement benefit elsewhere.

The Trustees are concerned about the future manning of LFD. The Trustees recognize no recommendation for benefit increases in the Supplemental Plan can be considered until the Ch 175 minimum benefit levels are satisfied. Clearly a prerequisite for the Trustees to act in the "best interests of the plan participants" is for the City and the IAFF to resolve the minimum benefits issue.

The Board of Trustees recommends the City and the IAFF agree to incorporate the Ch 175 minimums into the Employees' Plan as was done for Police Officers. This action will reduce the impact of the October 2003 modification by almost 50%. Once these minimums are satisfied, the Trustees can evaluate the potential for increasing the benefit in the Supplemental Plan for active members. While there are insufficient resources in the fund to make up the remaining benefit difference between the pre-2003 Employees' Plan benefits and the 175 minimums, any benefit increase should be helpful and may help stem the tide of firefighter departures.

The Trustees urge this action be taken as quickly as possible.

Michael Thomas
Chairman