

PREPARED BY KATHY LINDSEY

MINUTES
AMENDED

Policemen's Pension and Relief Fund
Thursday, January 14, 2010
9:00 a.m.

On Thursday, January 14, 2010 at 9:00 a.m., a meeting of the Board of Trustees of the Policemen's Pension and Relief Fund of the City of Little Rock, Arkansas was held in the Sister Cities Conference Room at City Hall.

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| PRESENT: | Bruce Moore | Chairman |
| | Farris Hensley | Secretary |
| | Sara Lenehan | Treasurer |
| | Lee Harrod | Member |
| | Brad Furlow | Member |
| | Mike Lowery | Member |
| | David Rowan | Member |

ABSENT: None

Also present were Mr. Larry Middleton, Mr. Alex Jordan, and Mr. Bo Brister, Stephens Capital Management Financial Consultants for the Fund; Mr. John Peace, Dover Dixon Home Law Firm Legal Consultants for the Fund; Mr. Roger Smith, Government Relation Lobbyist for the Fund; Mr. Donald Wood, Mr. Rusty Watson, and Mr. Steve Young, Retired Members of the Fund; Mr. Bill Lundy, Retired Firefighter with the City of Little Rock; Mr. Jason Bailey, intern with City of Little Rock City Managers Office, and Mrs. Kathy Lindsey, Pension Fund Administrative Staff.

Mr. Moore called the meeting to order at approximately 9:06 a.m., certifying that a quorum of the Board was present and that the media had been properly notified in a letter dated January 5, 2010 to the Arkansas Democrat Gazette.

Copies of the November and December minutes had previously been submitted to Board members before the meeting. Mr. Rowan had previously asked for an amendment to the November minutes, page four, paragraph one to read *Mr. Rowan asked Mr. Middleton if the reason the pension fund was being managed more conservatively was due to the DROP allocation being so large*. Mr. Rowan made a motion to approve the minutes. Mr. Lowery seconded the motion. During discussion Mr. Furlow asked that the minutes be tabled until February to give everyone time to review them. Mrs. Lenehan doesn't think the statement she made on page two was the way it was presented. Mr. Rowan withdrew his motion and Mr. Lowery withdrew his second. Mr. Furlow made a motion to table the November and December minutes until the February meeting. Mr. Rowan seconded the motion. A vote was taken and it passed to table minutes until February with Mr. Moore, Mrs. Lenehan, Mr. Furlow, Mr. Rowan, Mr. Lowery, voting to table the minutes and Mr. Hensley and Mr. Harrod voting not to table minutes. Mr. Hensley stated since the November minutes have been available for six weeks, he thinks they need to be approved, but is in favor of tabling the December minutes. Mr. Moore stated he believes the process of sending out minutes prior to them being approved by the Board is a flawed

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process. Mr. Hensley stated that this process of distribution of minutes is perfect because members would still not have copies of the November minutes until February. Mr. Furlow stated members do indeed need to know what is going on in meetings so why not send out a synopsis of a meeting instead of unapproved minutes. Mr. Moore agreed since the audio of a meeting is being posted to a website. Mr. Harrod stated a lot of the members are elderly and do not have a computer and live out of state and not familiar with the website. Mr. Rowan said he views these only as draft minutes but wrong information has in the past been sent out to members in previous minutes. Mr. Hensley explained that the Board formally approves any changes made to the minutes of a meeting, and distributes the approved correction to all members of the Fund. Mr. Moore said he thinks it is very confusing to members using this process but the Board has decided to use this process and we will continue to send out draft minutes as long as the members know they are draft and are subject to change. Mr. Lowery said that he was in favor months ago of the current process of distributing draft copies of the minutes to members of the Fund and is in favor of continuing the process.

Mr. Middleton and Mr. Jordan gave the December 2009 financial report and stated that on December 31st, the market value of the total Fund was \$48,028,538, of which \$24,126,956.36 was allocated to DROP. This represents an increase in the account balance of \$475,448 since November 30, 2009. The component of this change was income of \$200,476, and net contributions/withdrawals of (\$236,909). Additionally, \$592,922.98 was held in the Metropolitan Checking Account. The Funds overall market rate of return for the month of December 2009 was 1.49% and 9.09% calendar year to date.

As a compliance issue, Mr. Jordan will be submitting to the Board each quarter an asset allocation sheet on all accounts they manage to be signed by the Chairman and Secretary of the Board then signed by Mr. Jordan and Mr. Middleton.

During Board's discussion of DROP interest reporting on the monthly Unaudited Balance Sheet Report, Mr. Hensley asked Mr. Jordan and Mr. Middleton if DROP could be reported separately on the financial statement to give a clear understanding of the funds actual assets. Mrs. Lenehan had stated previously that it was not as simple as showing DROP distributions as a separate line item because of the earnings, dividends, and unrealized gains and losses to the fund. Mr. Moore asked Mr. Middleton if they were prepared to answer this question today or would they like to postpone answering the question. Mr. Middleton said if the Board members are asking for them to break down contributions and withdrawals of DROP on a net basis on quarterly reports, it could be done; however if they are asking to calculate returns earned on assets, it would be very difficult or virtually impossible. Mr. Jordan said he would like to schedule a meeting with Mrs. Lenehan and Mr. Jody Carreiro on this matter, to ensure they are calculating the information correctly before anything is submitted to the Board. Mr. Middleton asked this topic be placed on February's agenda to give them time to research the solution.

At 10:03 a.m., Mr. Moore called for a short recess; Mr. Moore called the meeting back to order at 10:13 a.m.

Mr. Smith said the legislature will soon be in session discussing budget cuts. University of Arkansas in Fayetteville will be cut by \$2,500,000, and UAMS will be cut over one million dollars. The February session will only address state budget issues with the exception of the lottery, and a scholarship amount will be designated from the lottery fund. City of Little Rock has been willing to get involved in discussion on the formula for the distribution of insurance premium tax.

Mr. Peace reported there is no new information concerning the benefit increase lawsuit.

Mr. Peace sent an email to the Board on December 16th regarding the demand for payment of the \$50 benefit increase. His recommendation was, according to the action taken in the December meeting, those demands should be denied. Mr. Hensley stated that in a previous meeting, Mr. Peace had opined to the Board that if demands were made, they would have standing if the increase was not rescinded. Mr. Peace replied that there are three steps to adopting an increase. Because the third step had not taken place and the Board never adopted the increase because it was rescinded, the demands should be denied. Mr. Hensley asked how he reconciles the fact the demands were made prior to the resolution being rescinded. Mr. Peace asked Mr. Hensley to clarify his question. Mr. Hensley restated, how do you reconcile the fact that these demands were made prior to the resolution being rescinded? Mr. Peace said they were also made prior to the benefit increase being *implemented*. Mr. Hensley read a portion of the November 13, 2008 meeting and stated Mrs. Lenehan had made a motion to rescind the resolution in November 2008, Mr. Furlow seconded the resolution and it failed. Mr. Hensley said that Mr. Harrod had made a motion to postpone the resolution from November 2008 to December 2009. Mr. Hensley said during the discussion that Mr. Peace indicated the Board needed to rescind the resolution. Mr. Hensley said Mrs. Lenehan asked what would happen if a member called tomorrow and said, "I want my increase, and would": Mr. Hensley said Mr. Peace interrupted and said, I think they have standing to do that, at which time Mr. Moore said that's the point. Mr. Peace said he was glad Mr. Hensley read that because they certainly have standing to make a demand but the Board does not have to accept the demand, it can be denied. Mr. Hensley asked Mr. Peace why he was concerned that they might make a demand if they do not have a standing for the demand to be valid. Mr. Peace said any member can make a demand anytime about anything. Mr. Peace then recommended he draft a letter to respond to the members that wrote demand letters to deny the requests.

Mr. Hensley then asked if it had just been concluded that the letter would be drafted to the previously referenced members, without the Board taking formal action concerning the matter. Mr. Rowan then made a motion to deny the requests and send a letter to the requesting parties of the denial. Mr. Furlow seconded the motion. Mr. Hensley stated it was contrary to the opinion Mr. Peace gave in November 2008, and he thinks every member should have this benefit increase. A vote was taken and Mr. Moore, Mrs. Lenehan, Mr. Furlow, Mr. Rowan, Mr. Lowery, voted to send denial letters to the members demanding payment and Mr. Hensley and Mr. Harrod voting against the denial letters.

Mr. Peace presented a Qualified Domestic Relations Order (QDRO) for Mr. Jimmy and Ms. Pamela Evans to be approved by the Board. Mr. Hensley made a motion to approve the QDRO with Mr. Harrod seconding the motion and it passed unanimously.

Mr. Peace stated the pension office had received a call from Ms. Glynis Ghormley, spouse of Mr. Ronald Ghormley, requesting dependent benefits for a non-biological child. He then explained that the State Statutes pertain to biological children only. The Board concluded that a formal request would need to be made by Ms. Ghormley for the Board to further consider the matter.

Mr. Peace had stated it would be the Board's decision to adopt a policy assigning a portion of a pension check to another member. Mrs. Lenehan stated it would be added responsibility to administrative staff, so she recommended the party write a check and distribute as they wish. Mr. Hensley stated he thought it was important to accommodate less fortunate members of the fund and said that if a formal request was made regarding this issue, we should try to accommodate the request. Mr. Hensley stated he didn't think it would be too much of a burden on administrative staff to honor

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this request and he made a motion to set up a procedure to help the less fortunate members of this fund and if someone wants to designate a portion of their pension to a less fortunate member of the fund for a specific period of time that we accommodate that request. Mr. Harrod seconded the motion. Mr. Moore stated he did not see this procedure as helping less fortunate as there are other opportunities in helping members and he was not supportive of this motion because administratively it would be very difficult to process through withdrawals of pension checks. Mr. Lowery stated he was all for any member that wanted to designate a portion of their pension to go toward another member, but because of administrative issues in years past of funds being over paid to members, he can see issues with these payments and that is why he will vote against it. Mrs. Lenehan stated she is concerned with the precedent it sets for other charitable contributions or other payments asked to be deducted and the additional administrative burden on staff. A vote was taken and failed with Mr. Moore, Mrs. Lenehan, Mr. Furlow, Mr. Rowan, and Mr. Lowery, voting against deductions from pension checks and Mr. Hensley and Mr. Harrod voting for deductions.

Mr. Furlow gave a presentation explaining the financial issues with the fund. Mr. Furlow said he was asked how benefit expenditures could be \$72,719 more in 2009 than in 2008 without a benefit increase. Mr. Furlow stated that the fund is made up of two parts, the portion the pension is paid from and the DROP portion. The fund consists of three categories of members. The ones that are traditionally retired and spouses of deceased members receiving a pension check each month, the ones in DROP that are classified as retired but are still making contributions to DROP (classified as active DROP), and the ones still employed with the City (continued employees) but past their 10 years on DROP that are not making contributions. Contributions consist of 12%, 3% going into the member's active DROP account and 9% going into the fund. The active DROP members receive a monthly pension amount from the fund section into their DROP account that is an accounting entry and does not show on the benefit expenditures. Once the continued employees stop working, they will start receiving a pension that is drawn from the fund section causing the benefit expenditures to increase without a benefit increase. Mr. Hensley stated the fund is saving about one half million dollars a year because of members working for the City after their ten year DROP period otherwise if they were retired, they would receive a benefit each month, therefore it is a benefit saving. Also, the fund is saving 9% from the DROP contributions. Mr. Furlow stated he did not realize the fund was in trouble from the reports that are distributed each month.

Mr. Furlow reported the net recurring income was \$4,069,570 in 2000 and \$4,488,343 in 2009, for an increase in recurring income of \$4,187. The total expenses without DROP payouts were \$4,522,991 in 2000 and \$7,245,535 in 2009 for an increase in expenses of \$2,722,544. The purpose of this presentation was to show the annual income, the annual expenditures, and how the money is being divided between pension and DROP. Mr. Furlow stated the fund needs approximately 3½ million dollars annually in returns for expenditures. Mr. Furlow said the fund lost 40% of its value between 2007 and 2008 when it dropped from \$42 million to \$25 million, and the DROP account increased from \$24 million to \$25 million. Mr. Furlow said the DROP portion of the fund is not affected from investment losses, only the portion that pays all monthly benefits.

Mr. Harrod said Mr. Jody Carreiro had given an actuarial report pertaining to DROP, and said even with all the down side, the DROP was a wash and had not been an expense to the fund. Mr. Hensley questioned Mr. Furlow's total income for year-end 2008. He said Mr. Carreiro's report showed \$5,103,442, and Mr. Furlow's sheet showed \$4,346,160, then which is a difference of approximately \$800 thousand. Mrs. Lenehan said that difference was added later in Mr. Furlow's

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report. Mr. Hensley said he does share the concern that a downturn effect could have on this fund, but reoccurring revenues are consistently increasing. Even though the liability is projected to increase because of employees on continued employment retiring, overall the liability is decreasing because the fund is a closed fund and because of the death of members. Mr. Harrod said Mr. Furlow's report does reflect the fund's expenses decreasing, and the total expenses without DROP at the year-end of 2009 are \$7,245,535. Mr. Harrod said the reason for this is being a closed fund, the average age 67, and the revenue of property tax continuing to increase. Mr. Lowery stated when the continued employees and the active DROP members retire, the fund will pay out over \$8 million annually and revenue is a little over \$4 million annually. If everyone draws their money out of DROP, there will be \$24 million to pay benefits and the fund will be in trouble.

Mr. Hensley stated he did not want to adopt Robert's Rule of Order without seeing a copy first. Mr. Furlow made a motion to table adopting Robert's Rule of Order until the February meeting and Mr. Hensley seconded the motion. Administrative staff researched and could not find a free download copy online. Mr. Furlow said if it would be another expense for the fund, he would retract his motion. Mr. Hensley then retracted his second. Mr. Harrod said he has never read Robert's Rule of Order and if Mr. Peace couldn't understand Robert's Rule without research then he knows he will not be able to understand them. Mr. Moore said counsel had recommended adopting Robert's Rule, and asked for Mr. Peace to reply. Mr. Peace said by adopting Robert's Rule, it would add certainty to the proceedings without having to refer to the statutes every time. Mr. Moore said he would purchase copies for the members in need of a copy. Mr. Lowey, Mr. Hensley, and Mr. Harrod said they would need a copy. Adopting Robert's Rule of Order was then tabled until the February meeting.

Mr. Moore said Agenda item ten, RFQ for Stephens needs to be changed to RFQ for Investment Advisor since it is not just for Stephens. Mrs. Lenehan said there was a draft RFQ before the Board Members for review. Mr. Hensley made a motion to approve the RFQ presented with a deadline date of thirty days after it is posted. Mr. Lowery seconded the motion and it passed unanimously.

Mr. Moore said the presentation to the City Board is scheduled for February 23, 2010, 4 pm. Mr. Moore said presentations are set for 10 to 15 minutes for speakers. Mr. Roger Smith and Mr. Jody Carreiro will be presenting the presentation.

At approximately 11:40, Mr. Moore excused himself from the meeting and Mr. Harrod took over as Chairman.

Mrs. Lenehan submitted copies of the un-audited financial report for December 2009. Losses to the plan year to date through December 31, 2009 were (\$1,745,809). The report indicated that as of December 31, 2009, the total account fund balance including the DROP was \$48,430,334. The net gain for the month of December was \$91,995.

Also submitted were copies of the December 2009 expense and legal fee reports. Total expenditures, excluding benefit related expenses, were \$2,652.51 for the month. Total expenditures through December 31, 2009 were \$35,592.75. Legal fees paid were \$52,643.09 year to date through December 2009.

Following review of the December financial and expense reports, Mr. Hensley made a motion to approve them as submitted. Mr. Lowery seconded the motion and it passed unanimously.

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Mr. Harrod stated a Member's Comment section had been placed on the agenda for members to address the Board. Mr. Don Wood stated he did not have any questions at the time since he did not receive the information that was provided to the Board. Mr. Steve Young asked if time will be allotted at each meeting in the future for retirees to ask questions or make comments. He also asked if that had to be done in the form of a motion and what if they had questions about something on the agenda previously. Mrs. Lenehan explained how the City of Little Rock's Board answers questions and said Mr. Moore could clarify next month how and when to answer these questions. Mr. Harrod said Mr. Moore was not here and he was Chairman, so if members have any comments or statements to make they are welcome to ask them. Mr. Wood asked Mr. Hensley if he understood him correctly when he said the fund is a closed fund and everyone is close to retiring, and with the average age span being 67, then the fund will be broke in 11 years. Mr. Hensley stated that the benefits of the fund will increase for a period of time then start decreasing while the reoccurring revenue increases and when the last member passes away, there should not be any revenue left in the fund. Mr. Hensley used 2009 as an example and said the fund had received more in revenue than it had paid in expenses.

Mr. Furlow asked to answer Mr. Wood's question but Mr. Harrod said the question was for Mr. Hensley and there would not be a big discussion on the questions. Mr. Harrod asked if the members had any other questions or comments for the Board Members. He stated they are welcome to ask each member but he will not allow discussion from Board Members unless the questions are directed to them. Mrs. Lenehan asked if a Board Member was asked a question were the other Board Members allowed to answer. Mr. Harrod replied that the question was directed to Mr. Hensley only and if she wanted to put it on next month's agenda that's how it would be handled.

Mrs. Lindsey said Ms. Claudine Armstrong and Ms. Thelma Anderson have not returned their widows affidavits by the November 30, 2009 deadline. A phone call was placed to Ms. Armstrong December 8th and she explained that she had moved, so another copy was mailed her at that time. The pension office does not have a phone number for Ms. Anderson so a second copy was mailed to Ms. Armstrong and Ms. Anderson December 8, 2009. As of date, neither copy has been returned. Mr. Hensley said yes, we need a policy in place and when a policy is put into effect, it needs to be inserted into the policy manual because this has been addressed each year. Mr. Hensley said the benefits need to be stopped until the widow comes in and identifies herself and presents an affidavit. Mr. Lowery said he seconds the request. Mr. Hensley made a motion to withhold pension payments since repeated efforts have been made to get the affidavits signed. Mr. Lowery second the motion and it passed unanimously. Mrs. Lindsey asked if a policy could be made or does it need to be brought before the Board each year. Mr. Harrod said bring the issue before the Board until a policy is in place.

Mr. Lowery made a motion to remove Mr. Richard Collar who passed away on December 5, 2009 from the pension roll in the amount of \$1,115. To approve the widow's pension for Ms. Jean Collar in the monthly amount of \$1,115, and approve a \$6,500 death benefit on behalf of Mr. Collar, and extend the Boards condolences to his family. Mr. Hensley seconded the motion and it passed unanimously.

Mrs. Lindsey presented a schedule of the monthly board meetings and stated the second Thursday in November is Veterans Day and the City will be closed. The meeting is set for the third Thursday which is November 18th.

Affidavits were presented to Board Members to accompany the LOPFI report due March 31, 2010. There was discussion as to whether affidavits had to be filled out if members received less than

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\$100 in gifts for the year. Mr. Hensley recommended the statute be reviewed and suggested calling Mr. David Clark.

Upon conclusion of Pension Board business, Mr. Lowery made a motion to adjourn the meeting. Mr. Hensley seconded the motion, and meeting adjourned at approximately 12:07 p.m.

PREPARED BY KATHY LINDSEY

Respectfully Submitted,

Farris Hensley
Board Secretary